

# Public Document Pack

## **GOVERNANCE COMMITTEE**

Monday, 2<sup>nd</sup> July 2012  
at 3.00 pm

### **PLEASE NOTE TIME OF MEETING**

Conference Room 3 - Civic Centre

This meeting is open to the public

#### **Members of the Committee**

Councillor David Furnell (Chair)  
Councillor Mark Chaloner  
Councillor Edward Daunt  
Councillor John Hannides  
Councillor John Inglis  
Councillor Satvir Kaur  
Councillor Eamonn Keogh

#### **Independent Members**

Mr David Blake  
Mrs Elizabeth Hale

#### **Contacts**

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# **PUBLIC INFORMATION**

## **Role of the Governance Committee**

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.

### [02 Part 2 - Articles](#)

It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

## **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.

## **Southampton City Council's Seven Priorities**

- More jobs for local people
- More local people who are well educated and skilled
- A better and safer place in which to live and invest
- Better protection for children and young people
- Support for the most vulnerable people and families
- Reducing health inequalities
- Reshaping the Council for the future

**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 2012/13**

| <b>2012</b>                | <b>2013</b>              |
|----------------------------|--------------------------|
| 2 <sup>nd</sup> July       | 5 <sup>th</sup> February |
| 25 <sup>th</sup> September | 30 <sup>th</sup> April   |
| 18 <sup>th</sup> December  |                          |

## CONDUCT OF MEETING

### **Terms of Reference**

The terms of reference of the Governance Committee are contained in 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.

### **Quorum**

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

### **Rules of Procedure**

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

### **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.

## **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 the Council's Website**

### **1 ELECTION OF THE VICE-CHAIR**

To elect a Vice-Chair to the Committee for the 2012/13 Municipal Year.

### **2 APOLOGIES**

To receive any apologies.

### **3 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.

### **4 STATEMENT FROM THE CHAIR**

### **5 MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

To approve and sign as a correct record the Minutes of the meeting of the Audit Committee on 23<sup>rd</sup> April 2012 and to deal with any matters arising, attached.

### **6 RISK MANAGEMENT STRATEGY 2012-13 AND ANNUAL ACTION PLAN**

Report of the Head of Finance detailing the Council's Risk Management Strategy 2012-13 and Annual Action Plan, attached.

### **7 CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2011/12**

Report of the Chief Internal Auditor's regarding the adequacy and effectiveness of the Council's internal control environment for the year ending 31<sup>st</sup> March 2012, attached.

### **8 BRIBERY ACT POLICY**

Report of the Chief Internal Auditor seeking approval for the Bribery Act Policy in accordance with the legislative requirements of the Bribery Act 2010, attached.

**9 AUDIT COMMISSION: UPDATE REPORT AND AUDIT PLAN FOR THE AUDIT OF THE 2011/12 FINANCIAL ACCOUNTS**

Report of the Chief Internal Auditor regarding the Audit Commission's Update Report and Audit Plan for the Audit of the 2011/12 Financial Accounts, attached.

**10 MEETING SCHEDULE AND WORK PLAN**

To consider potential items for the Committee's work plan and schedule for the forthcoming municipal year.

Friday, 22 June 2012

HEAD OF LEGAL, HR AND DEMOCRATIC SERVICES

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AUDIT COMMITTEE  
MINUTES OF THE MEETING HELD ON 23 April 2012

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Present:

Members of the Council

Councillors Ball (Chair), Mead (Vice-Chair), Daunt, Furnell, Kaur and Dr Paffey

Apologies

Councillor Fuller

Also in attendance:

Kate Handy and Mike Bowers – Audit Commission

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

**RESOLVED** that the Minutes of the meeting held on 26<sup>th</sup> January 2012 be approved and signed as a correct record (copy of the minutes circulated with the agenda and appended to signed minutes).

33. **AUDIT COMMISSION: AUDIT COMMITTEE UPDATE**

The Committee received and noted the report of the Chief Internal Auditor updating the Committee on: the Annual report on the certification of Claims and Returns for 2010/11; together with progress in delivering the external auditors responsibilities (copy of report circulated with the agenda and appended to signed minutes).

34. **INTERNAL AUDIT: INTERNAL AUDIT PLAN 2012 - 2013**

The Committee received and noted the report of the Chief Internal Auditor detailing the plans for internal audit for the 2012-2013 municipal year (copy of report circulated with the agenda and appended to signed minutes).

35. **INTERNAL AUDIT: PROGRESS REPORT MARCH 2012**

The Committee received and noted the report of the Chief Internal Auditor detailing the Internal Audit Progress for the period ending March 2012 (copy of report circulated with the agenda and appended to signed minutes).

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# Agenda Item 6

|                                     |   |
|-------------------------------------|---|
| <b>DECISION-MAKER:</b>              | GOVERNANCE COMMITTEE                                    |
| <b>SUBJECT:</b>                     | RISK MANAGEMENT STRATEGY 2012-13 AND ANNUAL ACTION PLAN |
| <b>DATE OF DECISION:</b>            | 2 JULY 2012   |
| <b>REPORT OF:</b>                   | HEAD OF FINANCE   |
| <b>STATEMENT OF CONFIDENTIALITY</b> |   |
| NOT APPLICABLE                      |   |

## **BRIEF SUMMARY**

The Risk Management Strategy, which sets out the Council's overall approach to managing risk, is subject to annual review to ensure that it reflects good practice and remains aligned with current business processes and practices. In addition, the annual Risk Management Action Plan summarises the intended activity/actions in the forthcoming period to further develop and embed risk management.

## **RECOMMENDATIONS:**

That the Governance Committee:

- (i) Note and approve the Risk Management Strategy 2012-13 (Appendix 1);
- (ii) Note and approve the Risk Management Action Plan for 2012-13 (Appendix 2);
- (iii) Note the status of the Risk Management Action Plan for 2011-12 (Appendix 3).

## **REASONS FOR REPORT RECOMMENDATIONS**

1. The Governance Committee has responsibility to provide independent assurance 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. In addition, the Committee needs to satisfy itself 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.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2. No alternative options have been considered.

## **DETAIL (Including consultation carried out)**

3. Effective management of risk is a key component of the Council's overall corporate governance arrangements, and is recognised as such in:-
  - The CIPFA/SOLACE Corporate Governance Framework; and
  - CIPFA's guidance on the Annual Governance Statement.
4. The Accounts and Audit (England) Regulations 2011 also state that the Council is responsible for ensuring that "the relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk".

5. The Risk Management Strategy 2012-13 (Appendix 1) has been reviewed and updated taking in account good practice and reflects changes in both organisational structure, roles and responsibilities and business processes.
6. The 2012-13 Risk Management Action Plan (Appendix 2) is intended to encompass the range of actions considered necessary to ensure that existing good practice is maintained and/or arrangements are further developed as appropriate. The target dates are indicative noting that the plan needs to be flexible in order to be able to respond to other priorities should they arise during the period.
7. The 2011-12 Risk Management Action Plan – Status Report provides an update in respect of the actions for this period.

## **RESOURCE IMPLICATIONS**

### **Capital/Revenue**

8. NONE

### **Property/Other**

9. NONE

## **LEGAL IMPLICATIONS**

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

10. The Audit Commission Act 1998 and the Accounts and Audit (England) Regulations 2011 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:**

11. NONE

## **POLICY FRAMEWORK IMPLICATIONS**

12. NONE

|                |         |                                 |      |               |
|----------------|---------|---------------------------------|------|---------------|
| <b>AUTHOR:</b> | Name:   | Peter Rogers                    | Tel: | 023 8083 2835 |
|                | E-mail: | peter.rogers@southampton.gov.uk |      |               |

**KEY DECISION?** No

|                                    |     |
|------------------------------------|-----|
| <b>WARDS/COMMUNITIES AFFECTED:</b> | N/A |
|------------------------------------|-----|

**SUPPORTING DOCUMENTATION**

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

**Appendices**

|    |   |
|----|---|
| 1. | Draft Risk Management Strategy 2012-13              |
| 2. | Draft Risk Management Action Plan 2012-13           |
| 3. | Risk Management Action Plan 2011-12 – Status Report |

**Documents In Members' Rooms**

|    |     |
|----|-----|
| 1. | N/A |
|----|-----|

**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:** N/A

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. | N/A |  |
|----|-----|--|

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# **RISK MANAGEMENT STRATEGY 2012-13**



**July 2012**

## **CONTENTS**

- 1. Introduction**
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  - 5. Roles and responsibilities**
  - 6. Integration with other corporate processes**
  - 7. Communication**
  - 8. Reporting**
  - 9. Review**
- Appendix 1 - Glossary of common terms used in relation to risk management**
- Appendix 2 - Risk Register Template**
- Appendix 3 - Risk Financing Strategy**

## 1. Introduction

- 1.0 This strategy document, which has been developed in line with published good practice\*, provides an overview of the operating framework, arrangements and responsibilities for managing risk within the council. The strategy is relevant to Directors, Senior Managers and Managers as 'risk owners' and the Governance Committee in respect of their responsibility for overseeing the council's risk management arrangements.
- 1.1 Risk management is an essential part of good governance within any organisation and is intended to provide a framework and process that enables an organisation to manage uncertainty in a systematic, effective, consistent and efficient way. It supports informed decision making thereby enabling opportunities to be exploited or action to be taken to mitigate or manage key risks to an acceptable level.
- 1.2 The unprecedented pressure on the council's budget will mean that the need to identify and manage risk has never been more crucial. The council's insurance and risk advisors have commented that 'understanding and mitigating risk is critical when budgets are squeezed'. The foregoing recognises that, as the impact of the budget cuts begins to be felt public service organisations will inevitably be forced to have more of an appetite for risk in that they 'cannot do everything' and will face 'hard choices'. Effective management of risk is essential in ensuring that organisations are ready for the challenges that lay ahead and in supporting a 'culture of innovation' and moving from a 'risk averse' to a 'managed risk' approach.
- 1.3 Effective risk management is also a key element of corporate governance and is recognised as such in:-
- The CIPFA/SOLACE Corporate Governance Framework; and
  - CIPFA's guidance on the Annual Governance Statement.
- 1.4 The Accounts and Audit (England) Regulations 2011 also state that the council is responsible for ensuring that "the relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk".
- 1.5 The Council's risk management function is provided by Risk and Insurance Services within the Corporate Services Directorate.

\* including ISO 31000 Risk Management – Principles and Guidelines' and the 'A Structured Approach to Enterprise Risk Management' issued by the Institute of Risk Management, the Association of Insurance and Risk Managers and the Association of Local Authority Risk Managers.

## 2. Definitions

2.0 Risk and risk management may be defined as follows\*:

- **Risk** - 'the effect of uncertainty on objectives'.
- **Risk Management** - 'a coordinated set of activities and methods that is used to direct an organization and to control the many risks that can affect its ability to achieve objectives'.

\*Source ISO 31000 'Risk Management – Principles and guidelines.

## 3. Risk Management Policy Statement

*The Council recognises the need to identify and understand its key business risks and is committed to ensuring that appropriate arrangements are in place to enable informed risk decision taking, recognising that effective risk management seeks to optimise the balance between risk and reward.*

*Risk management is an essential part of good management and is a key component of the council's overall corporate governance arrangements. It is recognised that, in order to be effective, the approach to risk management needs to be structured and consistent and operate at both strategic and operational levels within the organisation. It is also recognised that risks should be aligned with key priorities and that actions should be proportionate to the level of risk.*

*In seeking to ensure the effective management of key risks the Council will develop policies and procedures intended to:*

- *Embed risk management into the culture of the organisation using consistent and common terminology;*
- *Raise the profile and understanding of risk management at all levels throughout the organisation including members;*
- *Develop a structured and consistent approach to the identification and management of key risks;*
- *Provide appropriate advice, guidance and training;*
- *Ensure the appropriate governance arrangements are in place;*
- *Ensure that the approach to risk management is in accordance with good practice and is aligned with the council's approach to corporate governance.*



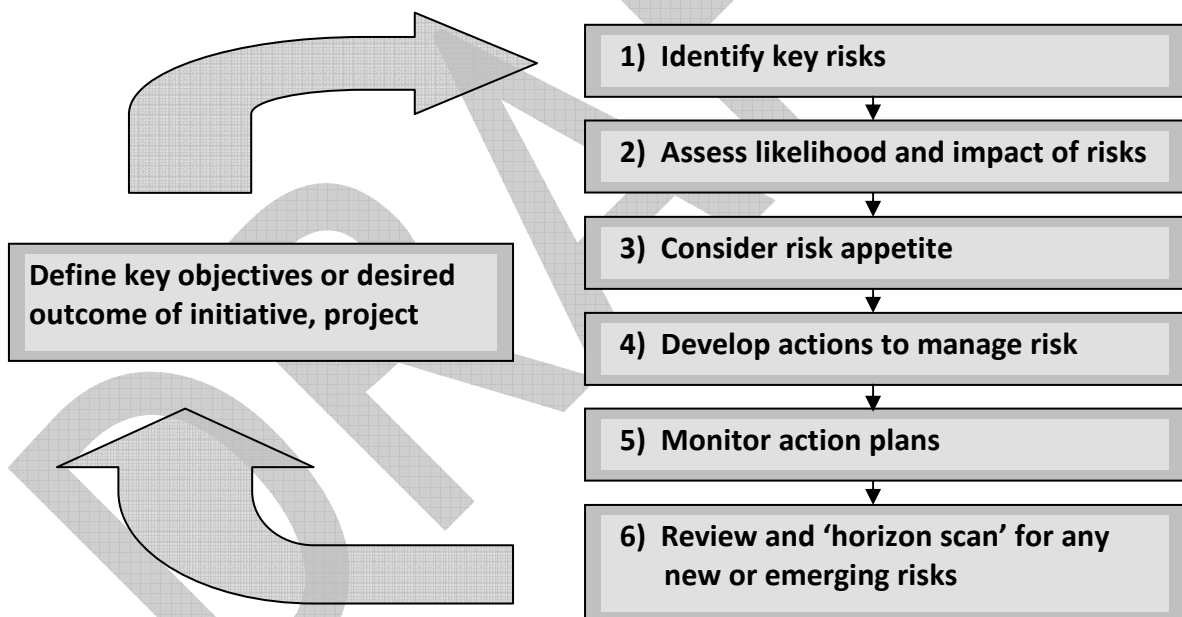
#### 4. Risk Management Process

4.0 In order to manage risk effectively it is necessary to develop a systematic approach to identifying, analysing and managing risk.

4.1 Prior to undertaking any risk management exercise it is first necessary to clearly identify the key objectives and desired outcomes of the project, service or activity in question. The achievement or otherwise of those objectives may depend upon:-

- the organisation doing certain things and not doing others;
- the occurrence of (internally and externally caused) events that could affect the organisation; and
- the circumstances in which the organisation finds itself.

4.2 The following diagram illustrates the risk management methodology adopted by the council.



- 1) The first step is to identify the key risks that could have a significant adverse effect or prevent key business objectives or outcomes from being met and/or prevent opportunities from being exploited;
- 2) The key risks then need to be assessed in terms of likelihood or frequency (i.e. the probability of risk event occurring) and severity (potential impact should the risk event occur);
- 3) 'Risk appetite' is defined as the amount and type of risk that the council, directorate, project board etc is prepared to accept, tolerate or seek. 'Risk appetite' can be

illustrated via a ‘risk matrix’ which may be used to ‘sense check’ the assessment and assist in determining the appropriate level of response. The aim is not to seek to drive all key risks into the ‘green area’ as this would reflect an extremely (and probably unreasonably) risk averse approach.

|                           |                   |   |               |          |             |          |              |
|---------------------------|-------------------|---|---------------|----------|-------------|----------|--------------|
| <b>LIKELIHOOD</b>         | Very High         | A |               |          |             |          |              |
|                           | High              | B |               |          |             |          |              |
|                           | Significant       | C |               |          |             |          |              |
|                           | Low               | D |               |          |             |          |              |
|                           | Very Low          | E |               |          |             |          |              |
|                           | Almost impossible | F |               |          |             |          |              |
| <b>RISK RATING MATRIX</b> |                   |   | 5             | 4        | 3           | 2        | 1            |
|                           |                   |   | Negligible    | Marginal | Significant | Critical | Catastrophic |
|                           |                   |   | <b>IMPACT</b> |          |             |          |              |

- 4) A Template ‘Risk Management Action plan’ (see Appendix 2) is normally used to record the agreed actions required to manage the risk, together with risk owner and key or target dates . A risk register is not only evidence that the key risks have been identified and assessed but also evidence of a commitment to managing the risk to a level that reflects the agreed risk appetite.
- 5) Appropriate governance or management arrangements should be in place to ensure that the ‘action plans’ are reviewed on a periodic basis and that ‘agreed actions’ are being progressed satisfactorily.
- 6) A periodic review should be undertaken to ensure the risk register remains fit for purpose, that the risk appetite is still appropriate and that any new or emerging risks are considered, taking into account any changes in the organisation or external factors.

#### 4. Roles and responsibilities

4.0 To be effective, a structured approach to risk management needs to be adopted and embedded as part of good management. All employees, members and those who act on behalf of the council have a role to play in the effective management of risk.

4.1 The principal roles and responsibilities are summarised below:-

| Individual/Group                                | Role/Responsibility  |
|---|--|
| <b>Members</b>                                  | <ul style="list-style-type: none"> <li>• To have an understanding of the key principles of risk management;</li> </ul>   |
| <b>Cabinet Members</b>                          | <ul style="list-style-type: none"> <li>• To ensure that there is an appropriate consideration of risk in relation to the decision making process;</li> <li>• To be aware of the council's strategic risks and those relating to their respective portfolio's.</li> </ul>   |
| <b>Governance Committee</b>                     | <ul style="list-style-type: none"> <li>• To provide independent assurance 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</li> <li>• To be satisfied and provide assurance 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.</li> <li>• To receive copies of the annual and interim risk management reports for noting and action as appropriate.</li> </ul>                          |
| <b>Management Board of Directors</b>            | <ul style="list-style-type: none"> <li>• To oversee the corporate approach to managing risk and to determine and agree the council's overall risk appetite;</li> <li>• To identify and agree the council's key strategic risks and to facilitate development of appropriate action plans to manage the risks;</li> <li>• To receive and review periodic updates (normally quarterly) to ensure that both strategic and directorate risks are being managed appropriately;</li> <li>• To agree and allocate 'risk owners' as appropriate;</li> <li>• To support and monitor the implementation and ongoing processes for embedding risk management throughout the Council.</li> </ul>       |
| <b>Directors / Directorate Management Teams</b> | <ul style="list-style-type: none"> <li>• To support the council's risk management strategy;</li> <li>• To ensure that a co-ordinated and consistent approach to the identification and management of risk is adopted;</li> <li>• To ensure that risks are appropriately managed and to have in place appropriate review and monitoring arrangements;</li> <li>• To ensure that robust business continuity plans are in place covering key service areas and that the plans are reviewed and tested within agreed timescales; and</li> <li>• To provide evidence, based on sources of internal and external assurance to support preparation of the Annual Governance Statement.</li> </ul> |

| Individual/Group  | Role/Responsibility   |
|---|---|
| <b>Directorate Business Development Managers (or equivalent)</b>    | <ul style="list-style-type: none"> <li>• To support the work of the Directorate Management Team by ensuring that appropriate systems and processes are in place to enable the directorate to be able to demonstrate robust management of key risks.</li> </ul>  |
| <b>Senior Managers</b>  | <ul style="list-style-type: none"> <li>• To manage risk effectively in their service areas and in accordance with the agreed risk appetite or tolerance.</li> </ul>   |
| <b>Risk and Assurance Manager /<br/>Risk and Insurance Services</b> | <ul style="list-style-type: none"> <li>• To facilitate the continuing development of the council's risk management arrangements;</li> <li>• To develop, maintain and communicate appropriate risk management guidance and information;</li> <li>• To support directorates in developing their risk management arrangements in line with the agreed Risk Management Strategy;</li> <li>• To maintain and facilitate the periodic review of the Strategic Risk Register including reporting periodically to the Management Board of Directors;</li> <li>• To review and report upon the adequacy and effectiveness of the Council's risk management arrangements;</li> <li>• To arrange appropriate risk financing measures and provide advice and guidance on the extent of insurance cover or self insurance arrangements;</li> <li>• Where appropriate, arrange the placement of cover with insurers including the negotiation of premium rates and policy terms; and</li> <li>• To provide and manage a claims handling service to process claims made by directorates and by members of the public.</li> </ul> |
| <b>Employees</b>  | <ul style="list-style-type: none"> <li>• To manage risk in the course of undertaking their duties;</li> </ul>   |
| <b>Internal Audit</b>   | <ul style="list-style-type: none"> <li>• To develop a risk based internal audit programme.</li> <li>• To audit the risk and internal control processes across the council.</li> <li>• To co-ordinate fraud and irregularity investigations including assessing the effectiveness of Fraud prevention controls and detection processes; and</li> <li>• To receive and provide assurance to Members and senior management of the effectiveness of risk management and controls;</li> </ul>  |

## 6. Integration with other corporate processes

### 6.0 Business Planning

The corporate business planning process requires that directorates detail the 'Challenges Ahead for the Directorate' and the 'Key Service Delivery Action's' for the forthcoming period. As part of the former the directorate is required to identify the 'Challenges and Opportunities Ahead for the Directorate' and to list the 'Main Risks to Manage'.

The development of directorate risk registers is therefore informed by output from the annual business planning process in terms of ensuring that key risks are aligned with key priorities and objectives. Similarly the Strategic Risk Register is informed by the key priorities and objectives from the Council Plan.

### 6.1 Decision making

The need to identify and communicate key risks features in the Decision Standards Guidance document which instructs report authors to 'consider whether there are any significant risks associated with the idea / proposal and how these might need to be presented'. In addition, the 'Detail' section on the corporate report template may be used to highlight any key risks associated with the decision and/or to provide assurance that appropriate actions or controls are in place to manage the risk.

### 6.2 Partnership Working

Revised guidance that is aligned with new approach to partnership/collaborative working is to be developed to replace the current Partnership Code and Toolkit that was originally adopted as part of the council's constitution in 2009. The revised guidance is expected to provide sign-posts to partnership development best practice and the internal support / advice available, including risk management.

### 6.3 Project Management

The need to identify and manage risk features throughout the various Gateways within the PM Connect Project Management Methodology. Specific guidance on the effective management of key risks is provided for Project Managers, Sponsors and Boards.

### 6.4 Corporate Governance

Defined 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'.

Source: Chartered Institute of Public Finance & Accounts and Society of Local Authority Chief Executives – Annual Governance Statement Guidance document 2008.

The Accounts and Audit Regulations require the council to publish an 'Annual Governance Statement' ("AGS") with its accounts. The AGS is a key corporate document that details the corporate governance arrangements that were in place

during the year and highlighting any significant gaps or areas where improvement is required. Risk Management is an integral part of good governance and a key component of the AGS in terms of how it serves to support transparent decision-making and accountability to stakeholders.

**6.5 Performance Management**

Risk management is inextricably linked with performance management. The management of key risks is intended to assist managers in identifying those risks that need to be managed in order to enable key business objectives to be achieved.

**6.6 Fraud Risk Management**

The management of fraud risk is the responsibility of everyone within the organisation and internal control systems are intended to minimise the opportunity for fraud or misappropriation of assets. Whistleblowing (Duty to Act) arrangements are in place together with an Anti Fraud and Anti Corruption Policy and Strategy.

**7. Communication**

7.0 The Risk Management Strategy and other associated guidance and template documents are made available on the intranet. The site is updated on at least an annual basis by the Risk and Assurance Manager.

7.1 Appropriate training opportunities will be made available to both members and staff relevant to their needs and responsibilities.

**8. Reporting**

8.0 The Risk & Assurance Manager shall, via the Head of Finance, present an annual report to the Governance Committee outlining the planned activities for the forthcoming period in addition to providing a mid-term update.

**9. Review**

9.0 This document will be reviewed annually by the council's Risk and Assurance Manager and any significant amendments reported to the Governance Committee for approval.

**Glossary of common terms used in relation to risk management**

|                             |  |
|-----------------------------|--|
| <b>Assessing risks</b>      | <i>The evaluation of risk with regard to the impact if the risk is realised and the likelihood of the risk being realised.</i>   |
| <b>Consequence</b>          | <i>The outcome of an event.</i>  |
| <b>Contingency</b>          | <i>An action or arrangement that can be put into place to minimise the impact of a risk if it should occur.</i>  |
| <b>Control</b>              | <i>Any action, procedure or operation undertaken to either contain a risk to an acceptable level, or to reduce the likelihood.</i>   |
| <b>Corporate Governance</b> | <i>The system by which an organisation is directed and controlled.</i>   |
| <b>Exposure</b>             | <i>The consequences, as a combination of impact and likelihood, which may be experienced by the organisation if a specific risk is realised.</i>   |
| <b>Fraud</b>                | <i>The intentional distortion of financial statements or other records by persons internal or external to the organisation, which is carried out to conceal the misappropriation of assets or otherwise for gain.</i>  |
| <b>Governance Committee</b> | <i>The Member body responsible for ensuring the adequacy of the risk management framework, internal control and reporting environment including (but not limited to) the reliability of the financial reporting process and the Annual Governance Statement.</i> |
| <b>Horizon Scanning</b>     | <i>Systematic activity designed to identify, as early as possible, indicators of changes in risk.</i>  |
| <b>Identifying Risks</b>    | <i>The process by which events which that could affect the achievement of key objectives, are drawn out, described and recorded.</i>   |
| <b>Impact</b>               | <i>The effect that a risk event would have if it occurs.</i>   |
| <b>Inherent Risk</b>        | <i>The level of risk before any action has been taken to manage it.</i>  |
| <b>Internal Control</b>     | <i>The policies, procedures, practices and organisational structures designed to provide reasonable assurance that business objectives will be achieved and that undesired events will be prevented or detected and corrected.</i>                               |
| <b>Likelihood</b>           | <i>The probability that an identified risk event will occur.</i>   |

|   |  |
|---|--|
| <b>Operational Risk</b>                   | <i>Risks concerned with day-to-day operational issues that an organisation might face as it delivers its services.</i>   |
| <b>Residual Risk</b>                      | <i>The level of risk remaining after action has been taken to manage it.</i>   |
| <b>Risk</b>                               | <i>The effect of uncertainty on objectives.</i>  |
| <b>Risk Appetite/Tolerance</b>            | <i>The amount of risk that the Council is prepared to accept, tolerate or be exposed to at any point in time.</i>  |
| <b>Risk Financing</b>                     | <i>The mechanisms (e.g. insurance programmes) for funding the financial consequences of risk.</i>  |
| <b>Risk Management</b>                    | <i>The culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives.</i>   |
| <b>Risk Management Action Plan (RMAP)</b> | <i>The document that records the existing controls together with any additional controls required to manage the risk to an acceptable level in line with the risk appetite.</i>    |
| <b>Risk Owner</b>                         | <i>The person with responsibility for ensuring that the controls identified in the RMAPs are adequate and appropriate and that the actions are being progressed.</i>               |
| <b>Risk Matrix</b>                        | <i>The number of levels of likelihood and impact against which to measure the risk and to record the risk appetite.</i>  |
| <b>Risk Register</b>                      | <i>A framework for capturing information about each risk, e.g. a description of the risk, its likelihood, its impact, how we are controlling it and who is managing that risk.</i> |
| <b>Risk Strategy</b>                      | <i>The overall organisational approach to risk management.</i>   |
| <b>Strategic risk</b>                     | <i>Risks concerned with the high level strategic aims and objectives of the organisation.</i>  |



## Risk Register Template

**Appendix 2**

| RISK MATRIX        |                   |   |            |          |             |          |              |
|--------------------|-------------------|---|------------|----------|-------------|----------|--------------|
| LIKELIHOOD         | Very High         | A | Yellow     | Red      | Red         | Red      | Red          |
|                    | High              | B | Yellow     | Yellow   | Red         | Red      | Red          |
|                    | Significant       | C | Yellow     | Yellow   | Yellow      | Red      | Red          |
|                    | Low               | D | Green      | Yellow   | Yellow      | Yellow   | Red          |
|                    | Very Low          | E | Green      | Green    | Yellow      | Yellow   | Yellow       |
|                    | Almost impossible | F | Green      | Green    | Green       | Green    | Green        |
| RISK RATING MATRIX |                   |   | 5          | 4        | 3           | 2        | 1            |
|                    |                   |   | Negligible | Marginal | Significant | Critical | Catastrophic |
|                    |                   |   | IMPACT     |          |             |          |              |

| Key Priority/ Objective  | Council Plan Ref | Action/controls already in place | Required Action/controls | Responsibility for Action | Due/ Target Date | Update of Required Management Action Controls | Status | Critical Success Factors and KPI's | Date last update | Date of next review | Risk Status |
|--------------------------|------------------|----------------------------------|--------------------------|---------------------------|------------------|---|--------|------------------------------------|------------------|---------------------|-------------|
| <b>Directorate</b>       |                  |                                  |                          |                           |                  |   |        |                                    |                  |                     |             |
| Risk Number : <b>001</b> | Risk Owner:      | Portfolio:                       | Risk Category:           |                           |                  |   |        |                                    |                  |                     |             |
| Risk Description -       |                  |                                  |                          |                           |                  |   |        |                                    |                  |                     |             |
| Initial Risk Score:      | Likelihood:      | Impact:                          |                          |                           |                  |   |        |                                    |                  |                     |             |
| Current Risk Score:      | Likelihood:      | Impact:                          |                          |                           |                  |   |        |                                    |                  |                     |             |
| Target Risk Score:       | Likelihood:      | Impact:                          |                          |                           |                  |   |        |                                    |                  |                     |             |
|                          |                  |                                  |                          |                           |                  |   |        |                                    |                  |                     |             |
|                          |                  |                                  |                          |                           |                  |   |        |                                    |                  |                     |             |
|                          |                  |                                  |                          |                           |                  |   |        |                                    |                  |                     |             |
|                          |                  |                                  |                          |                           |                  |   |        |                                    |                  |                     |             |

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# **RISK FINANCING STRATEGY**



**July 2012**

## **CONTENTS**

- 1. Introduction**
- 2. Definitions**
- 3. Structure, Resources and Accountability**
- 4. Process and procedures**
- 5. Alternative Risk Transfer**
- 6. Communication and Consultation**
- 7. Benchmarking**
- 8. Review**

DRAFT

## 1. Introduction

- 1.0 The Risk Financing Strategy is a key component of the council's Risk Management Strategy and sets out the council's overall approach to risk financing. It will be of particular relevance to the Governance Committee in respect of its responsibility for overseeing the council's risk management arrangements.

## 2. Definitions

- 2.0 **Risk Financing** - "Utilisation of source(s) of funds to pay for insurable losses. Source(s) of funds can be classified as:

**Internal** - a risk retention arrangement is established to use funds from within the organisation to pay for losses;

**External** - a risk transfer arrangement (generally through the purchase of insurance) is established to provide access to funds to pay for losses".

- 2.1 Although this document refers primarily to self insurance [risk retention] and external insurance cover in some cases other risk financing options may be available and these will be referred to as appropriate.

## 3. Structure, Resources and Accountability

- 3.0 In accordance with the council's Financial Procedure Rules the Chief Financial Officer (Head of Finance) has responsibility 'to advise the Cabinet on proper insurance cover where appropriate, and effect corporate insurance cover, through external insurance and internal funding'.

- 3.1 The Risk and Assurance Manager reports to the Head of Finance on all strategic risk financing issues and is responsible for ensuring that the adopted strategy is implemented and is subject to annual review.

- 3.2 The council's Risk Management and Insurance section is responsible for:

- Maintaining adequate and cost effective risk financing measures;
- Managing the internal self insurance fund;
- Providing risk management advice, guidance and support;
- Arranging, where appropriate, the placement of cover with external insurers including the negotiation of premium rates and policy terms; and
- The provision of an appropriate insurance claims handling service.

- 3.3 The council will appoint an external independent insurance broker/advisor to support and assist the council in respect of the periodic tender of its insurance portfolio. The appointment will normally include provision of ongoing support on a retained basis for the duration of the agreement.
- 3.4 The appointment of an insurance broker/advisor will be led by the Risk and Assurance Manager with the timing of any appointment normally taking place at least six months in advance of any renewal (or tender) of external insurances.
- 3.5 External insurance will be procured in accordance the council's Contract Procedure Rules. The council will award contracts for the provision of insurance services on the basis of the most economically advantageous terms in respect of price and quality.
- 3.6 The tender of the council's insurance portfolio will normally take place every three or five years (unless a longer or shorter term contract or agreement is proven to be beneficial to the council). In accordance with good practice the council will normally seek to enter into a 'long term agreement' ("LTA") with insurer(s). The LTA, which normally includes a discount on the premium, provides continuity of cover, an element of financial certainty and is in line with the standard market approach.

#### **4. Process and procedures**

- 4.0 An effective risk financing programme is one that provides appropriate and adequate protection for the council to support and enable current and future service delivery in addition to being able to demonstrate value for money.
- 4.1 The overall objective of the Risk Financing Strategy is to ensure that funds are available to pay for insurable losses using the most cost effective sources of finance. In doing so the council seeks to protect its financial position through the selective purchase of insurance cover and seeks to ensure that the risk financing structure is as financially efficient as possible, whilst accepting that financial certainty has a cost.
- 4.2 The aim is to achieve the optimum balance between self insurance and external insurance with the latter intended primarily to protect the council against the effects of a catastrophic loss and to limit the council's financial exposure in any one period. The approach seeks to smooth the cost of risk and minimise year on year fluctuations.
- 4.3 The structure of the risk financing programme will be subject to a detailed review, lead by the insurance broker/advisor, prior to each insurance tender exercise in order to identify any potential gaps, duplication etc in cover, and to evaluate self insurance against other risk transfer options.

- 4.4 The cost of risk (i.e. external insurance premium and contribution to the internal insurance fund) is apportioned across service areas on an equitable basis via an annual insurance recharge.
- 4.5 Losses within the insurance deductible are met from the self insurance fund which is reviewed on a monthly basis by the Risk and Assurance Manager. If, at any point, it becomes apparent that a shortfall of funds could occur then the matter will be referred immediately to the Chief Financial Officer.
- 4.6 In line with good practice the 'self insurance fund' is subject to independent actuarial review which is normally undertaken every three years. The review considers whether adequate funds are available to meet current and future liabilities. A summary of the report is provided to the Chief Financial Officer and to the Governance Committee.

## **5. Alternative Risk Transfer**

- 5.0 The council is committed to securing value for money and securing the most cost efficient source of risk financing. The insurance market for local authorities has traditionally been a specialist market with only a very limited number of insurers prepared to offer cover.
- 5.1 The council, in consultation with its insurance broker/advisor will keep abreast of any opportunities in respect of 'alternative risk financing' including consortia purchasing, joint procurement, risk pooling or the formation of a mutual insurance company. The foregoing options would however only be considered where any such proposals provided an acceptable level of financial certainty and security and a clear cost benefit.

## **6. Communication and Consultation**

- 6.0 The Risk Management Strategy will be published on the council's intranet site.
- 6.1 The Risk and Assurance Manager will also produce an annual 'Insurance Renewal' briefing paper for the Chief Financial Officer summarising the outcome of the annual insurance renewal process.

## **7. Benchmarking**

- 7.0 Where appropriate the Council will compare its approach to risk financing with peer authorities and will draw on benchmarking data in order to identify potential gaps in cover or areas for review.

## **8. Review**

- 8.0 This document will be reviewed annually by the Risk and Assurance Manager with any significant changes reported to the Governance Committee.

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## RISK MANAGEMENT ACTION PLAN 2012-13

|    | THEME / SOURCE / ISSUE   | ACTION   | TARGET  | LEAD OFFICER               |
|----|--|--|---------|----------------------------|
| 1. | <b>Reporting risk</b>  | Review and further develop the format in respect of how risks are report to the Management Board of Directors and Governance Committee.  | Sept 12 | Risk and Assurance Manager |
| 2. | <b>Business Planning</b> - Ensure that key risks are aligned with the key priorities and challenges    | Review, and where necessary, challenge the content of the Directorate Risk Registers to ensure quality and consistency of approach.<br><br>Facilitate the update and review of the Strategic Risk Register in consultation with the Management Board of Directors. | Sept 12 | Risk and Assurance Manager |
| 3. | <b>Communication</b>   | Work with and assist the new Directorate Business Development Managers (or equivalent) in respect of their risk management responsibilities.   | Sept 12 | Risk and Assurance Manager |
| 4. | <b>Managing Risks in Partnerships</b>  | Ensure that future corporate guidance in respect of partnership working includes and/or provides links to good practice in respect of risk management.   | TBA     | Risk and Assurance Manager |
| 5. | <b>Operational risk – claims loss review</b>   | Undertake a review, in consultation with our insurance broker/advisors, to identify potential actions to reduce or minimise insurable losses.  | Mar 13  | Risk and Assurance Manager |
| 6. | <b>Fire and Security Surveys</b>   | Facilitate and direct a programme of property risk reviews either at the request of insurance underwriters or in response to an area of concern.   | Mar 13  | Risk and Assurance Manager |
| 7. | <b>Guidance and advice</b>   | Ensure that a range of risk management guidance documents and templates (including those relating to insurance) are available and are aligned with the requirements of service areas.  | Mar 13  | Risk and Assurance Manager |
| 8. | <b>Policy and Strategy</b> - Ensure that the Risk Management Strategy remain relevant and appropriate. | Review and update the Risk Management Strategy as necessary and report any significant changes to the Governance Committee for approval.   | Mar 13  | Risk and Assurance Manager |

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## RISK MANAGEMENT ACTION PLAN 2011-12: Status Report

|    | THEME / SOURCE / ISSUE  | ACTION  | TARGET                          | STATUS                          | COMMENTS  |
|----|---|---|---------------------------------|---------------------------------|---|
| 1. | <b>Reporting risk</b> - Implementation (in-house) of further developments to improve and enhance the risk functionality developed within CorVu (the council's performance management software).   | Develop a suite of 'exception' style reports for use by Directorate Management Teams and the Management Board of Directors, to assist and inform the risk register review process and feed into the quarterly business review process.<br><br>Reports options to include all 'red risks', outstanding actions, new/closed risks.                          | June 2011                       | <b>COMPLETED</b><br>(June 2011) |   |
| 2. | <b>Decision Making</b> - Ensure that key decision makers are aware of key risks   | Refinement of the 'Portfolio Risk Registers' (derived from the Strategic and Directorate Risk Registers).   | Oct 2011<br>(Revised to Jan 12) | <b>COMPLETED</b><br>(Dec 12)    | Portfolio Risk Registers are now available via standard report on CorVu.  |
| 3. | <b>Business Planning</b> - Ensure that key risks are aligned with the Council's key priorities and challenges as reflected in the business planning process.  | Review, and where necessary, challenge the content of the Directorate Risk Registers to ensure quality and consistency of approach.<br><br>Facilitate the update and review of the Strategic Risk Register in consultation with the Management Board of Directors.  | June 2011                       | <b>COMPLETED</b><br>(July 11)   | Risk management is embedded as a key component of the corporate business planning process. Strategic Risks feature in the Council Plan and Directorate Risks form part of each Directorate Business Plan.<br><br>The Management Board of Directors review the Strategic Risk Register on a quarterly basis. |
| 4. | <b>Managing Risks in Partnerships</b> (including shared service arrangements). Guidance in respect of 'managing risks in partnerships' forms part of the council's Partnership Code and Toolkit and was formally adopted as part of the council's Constitution in 2009. | Guidance in respect of the governance of partnerships, including how it relates to shared services, is to be reviewed and updated to reflect the revised approach to partnerships as reflected in the new Southampton Connect collaborative model.<br><br>The review will include the associated guidance in respect of 'managing risks in partnerships'. | March 2012                      | <b>DEFERRED</b>                 | Revised guidance that is aligned with new approach to partnership /collaborative working is to be developed subject to guidance from the new administration in respect of the approach to partnerships.   |

|    | THEME / SOURCE / ISSUE  | ACTION   | TARGET     | STATUS                          | COMMENTS  |
|----|---|--|------------|---------------------------------|---|
| 5. | <b>Risk Reviews</b> – Facilitate and direct a programme of property and liability risk reviews either at the request of insurance underwriters or in response to an adverse claims experience or area of concern. | Work with both property and liability insurers (via their risk survey / loss control service teams) to identify and develop an appropriate risk survey/ risk review programme encompassing both strategic and operational risk issues.   | March 2012 | <b>COMPLETED</b><br>(Mar 12)    | Insurers have undertaken fire and security surveys at the following premises: One Guildhall Square, The Quays, Bitterne Park School, former Woolston School site, Tudor House, City Depot, Above Bar Street and Albion Towers. A 'Driver and Fleet Management' review has also been undertaken.   |
| 6. | <b>Training</b>   | SCC to facilitate a 'mock trial' training event involving insurers, solicitors and barristers for the benefit of those internal service areas who are involved in the investigation of liability (personal injury, loss or damage) claims. Event to be co-hosted with IOW Council. | Sept 2011  | <b>COMPLETED</b><br>(Nov 2011)  | Mock Trial event held in the Council Chamber on 11 <sup>th</sup> November attended by colleagues from service areas together with delegates from other local authorities in the area.<br><br>A Member training session, which included a section on risk management, was held in July 2011. The session, which was primarily intended for the Audit Committee, was made available to all members. |
| 7. | <b>Guidance</b> - Ensure that a range of risk management guidance documents and templates (including those relating to insurance) are available and are aligned with the requirements of service areas.           | Review and update the intranet.  | March 2012 | <b>COMPLETED</b><br>(July 2011) | Intranet pages reviewed and updated as part of the launch of the updated Council Intranet.  |
| 8. | <b>Policy and Strategy</b> - Ensure that the Risk Management Strategy and Policy are still relevant and appropriate.  | Review and update the Risk Management Strategy and Policy as necessary and report any significant changes to the Audit Committee for approval.   | June 12    | <b>COMPLETED</b><br>(June 12)   |   |

# Agenda Item 7

|                                     |  |
|-------------------------------------|--|
| <b>DECISION-MAKER:</b>              | GOVERNANCE COMMITTEE                                       |
| <b>SUBJECT:</b>                     | CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2011/12 |
| <b>DATE OF DECISION:</b>            | 02 JULY 2012   |
| <b>REPORT OF:</b>                   | CHIEF INTERNAL AUDITOR                                     |
| <b>STATEMENT OF CONFIDENTIALITY</b> |  |
| None                                |  |

## **BRIEF SUMMARY**

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 attached report provides the Chief Internal Auditor's opinion on the system of internal control and summarises audit work from which that opinion is derived for the year ending 31<sup>st</sup> March 2012.

The report concludes that Southampton City Council's framework of governance, risk management and management control is basically sound, however, some weaknesses have been identified through our work or we have found evidence that the framework may not be consistently applied.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

## **RECOMMENDATIONS:**

- (i) That the Audit Committee notes the Chief Internal Auditor's Annual Report and Opinion for 2011/12.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. The Accounts and Audit (England) Regulations 2011 state 'a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2. None

## **DETAIL (Including consultation carried out)**

3. The Chief Internal Auditor's Annual Report and Opinion for 2011/12 is attached for consideration in the appendix. The main purpose of this report is to give the Chief Internal Auditor's opinion on the adequacy and effectiveness of the Council's internal control environment for the year ending 31<sup>st</sup> March 2012.

The Governance Committee's attention is drawn to the following points:

- internal audit was compliant with the CIPFA Code of Practice for Internal Audit in 2011/12;
- the revised internal audit plan for 2011/12 has been substantially delivered;
- the Council's framework of governance, risk management and management control is considered to be basically sound, however, some weaknesses have been identified through internal audit's work or evidence was found that the framework may not be consistently applied;
- where our work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective actions and a timescale for improvement were agreed with the responsible managers.

4. Significant issues identified during the course of our work related to:

- Control weaknesses identified in the administration of Teachers' Pensions within HR Payroll (with regard external payroll providers), including ineffective recording, calculation, verification and reconciliation of records. There were further risk exposures in respect of ownership / accountability and legislative compliance.

The 2010/11 Teachers Pension return (Part B), included only two schools using external payroll providers. During 2011/12 a further 16 schools have opted out of the Council's payroll SLA and moved to external providers. As such it is essential that identified control weaknesses are appropriately addressed to ensure the proper administration of funds across a significantly wider cohort of schools.

The Chief Internal Auditor's Annual Report and Opinion 2011/12 has been reviewed and approved the Management Board of Directors

## **RESOURCE IMPLICATIONS**

### **Capital/Revenue**

None

### **Property/Other**

None

## **LEGAL IMPLICATIONS**

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

The Accounts and Audit (England) Regulations 2011 state 'a relevant body must undertake an adequate and effective 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:**

None

**POLICY FRAMEWORK IMPLICATIONS**

None

|                |         |                          |      |               |
|----------------|---------|--------------------------|------|---------------|
| <b>AUTHOR:</b> | Name:   | Neil Pitman              | Tel: | 023 8083 4616 |
|                | E-mail: | Neil.pitman@hants.gov.uk |      |               |

**KEY DECISION?** Yes/No    No

|                                    |  |
|------------------------------------|--|
| <b>WARDS/COMMUNITIES AFFECTED:</b> |  |
|------------------------------------|--|

**SUPPORTING DOCUMENTATION**

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

**Appendices**

|    |  |
|----|--|
| 1. | Chief Internal Auditor's Annual Report and Opinion 2011/12 |
| 2. |  |

**Documents In Members' Rooms**

|    |      |
|----|------|
| 1. | None |
| 2. |      |

**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)

|    |  |  |
|----|--|--|
| 1. |  |  |
| 2. |  |  |

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## **CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2011 - 2012**

|                     |                                     |
|---------------------|-------------------------------------|
| <b>Prepared by:</b> | Neil Pitman, Chief Internal Auditor |
| <b>Date:</b>        | 4 <sup>th</sup> June 2012           |

## **1. INTERNAL CONTROL AND THE ROLE OF INTERNAL AUDIT**

- 1.1. Under the Accounts and Audit (England) Regulations 2011, the Council is required to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'. The standards for 'proper practices' for internal audit are laid down in the Chartered Institute of Public Finance and Accountancy's *Code of practice for internal audit in Local Government in the United Kingdom (2006)* ["CIPFA Code"].
- 1.2. Internal audit is an assurance function that provides an independent and objective opinion to the Council on the control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the Council's objectives.
- 1.3. It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risk is appropriately managed and outcomes achieved.

## **2. INTERNAL AUDIT OPINION**

- 2.1. The purpose of this report is to give my opinion as Chief Internal Auditor for Southampton City Council on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance from the work internal audit have carried out for the year ending 31<sup>st</sup> March 2012.
- 2.2. The report and opinion provides as a key contributor to the Annual Governance Statement, however, remains only one element of the wider assurance process.
- 2.3. In giving this opinion, it should be noted that assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:
  - written reports on all internal audit work completed during the course of the year;
  - results of any follow up exercises undertaken in respect of previous years' internal audit work;
  - the results of work of other review bodies where appropriate;
  - the extent of resources available to deliver the internal audit work;
  - the quality and performance of the internal audit service and the extent of compliance with the CIPFA Code;
  - any limitations which may have been placed on the scope or operation of internal audit; and
  - the proportion of Southampton City Council's audit need that has been covered within the period.

### Opinion

I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Southampton City Council's internal control environment.

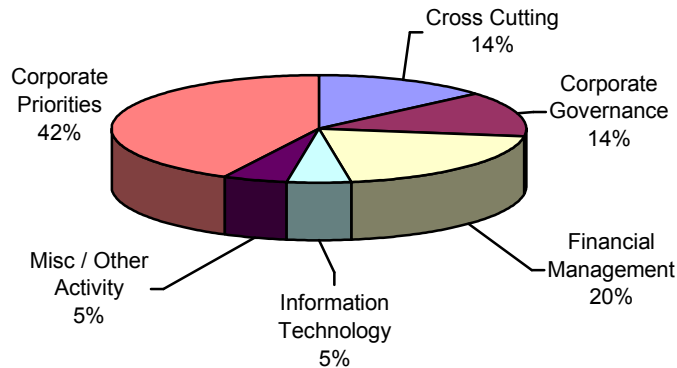
In my opinion, Southampton City Council's framework of governance, risk management and management control is basically sound, however, some weaknesses have been identified through our work or we have found evidence that the framework may not be consistently applied. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

This overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs.

### **3. INTERNAL AUDIT COVERAGE AND OUTPUT**

- 3.1. The *Strategic internal audit plan* details a rolling, three-year programme of audits, designed to support preparation of the '*Annual Governance Statement*' and encompasses the following core principles:
- focus on the Council's defined purpose and outcomes;
  - effective performance in clearly defined functions and roles;
  - promoting values that underpin good governance through upholding high standards of conduct and behaviour;
  - taking informed and transparent decisions within a framework of controls and managing risk;
  - developing the capacity and capability of members and officers to be effective; and
  - engaging stakeholders to ensure robust public accountability.
- 3.2. The 2011 -12 internal audit plan, approved by the Audit Committee 17 March 2011 (revised 6<sup>th</sup> December 2011) was informed by the corporate risk register and performance framework, supplemented with internal audit's own assessment of risk and materiality.
- 3.3. Internal audit delivered 1,017 audit days across 59 review areas over the course of the year ending 31<sup>st</sup> March 2012.

### Analysis of audit coverage by type



3.4. The revised 2011-12 internal audit plan has been delivered with the following exceptions:

- At the time of this report, the following reviews remain work in progress:
  - Joint commissioning
  - Human Resources
- Work is substantially complete and an opinion has been formed for 12 reviews, however, formal draft reports have not yet been agreed with management:

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

3.5. We have published an opinion in final or draft reports (where we are concluding discussions with management in the agreement of action plans) in respect of 46 reviews completed during the year<sup>1</sup>.

3.6. Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers.

3.7. We actively monitor progress against the agreed action plans until we receive confirmation from management that all agreed actions have been completed or as happens in time of significant change, superseded.

---

<sup>1</sup> 11 reviews did not culminate in a formal opinion, these include grant certification work, consultancy, assurance mapping exercises, advice (including fraud and irregularity)

- 3.8. The opinion assigned to each internal audit review on issue of the report is defined as follows:

| <b>Opinion</b>        | <b>Framework of governance, risk management and management control</b>  | <b>Number of opinions in this category (2011-12)</b> |
|-----------------------|---|--|
| Substantial assurance | A sound framework in place that is operating effectively.   | 16<br>(incl 2 draft opinions)                        |
| Adequate assurance    | Basically a sound framework in place with possible opportunities to improve controls or some immaterial evidence of inconsistent application. | 22<br>(incl 7 draft opinions)                        |
| Limited assurance     | Critical weakness (es) identified within the framework and / or significant evidence of inconsistent application.                             | 7<br>(incl 3 draft opinions)                         |
| No assurance          | Fundamental weaknesses have been identified or the framework is ineffective or absent.  | 1  |

#### **4. SIGNIFICANT ISSUES ARISING**

##### **4.1. Teachers Pensions – No assurance**

Teachers' Pensions produce guidance and manage contributions on behalf of the Department of Education. The Council is the responsible body for making contribution payments and returns to Teachers' Pensions including for schools that have opted out of using the Council's payroll.

The Council are required to complete an annual 'TR17' return to Teachers' Pensions. This is split into two parts, part A is for schools that used the Council payroll system and part B for schools using external providers. The return is completed by HR Payroll and signed by the Section 151 Officer. An Internal Audit review was undertaken on the data required for part B of the return.

Significant control weaknesses were identified in the administration of Teachers' Pensions within HR Payroll (with regard external payroll providers), including ineffective recording, calculation, verification and reconciliation of records. There were further risk exposures in respect of ownership / accountability and legislative compliance

The 2010/11 Teachers Pension return (Part B), included only two schools using external payroll providers. During 2011/12 a further 16 schools have opted out of the Council's payroll SLA and moved to external providers. As such it is essential that identified control weaknesses are appropriately addressed to ensure the proper administration of funds across a significantly wider cohort of schools.

Following necessary adjustments, the 2010/11 TR17 return was signed off by the external auditors and significant progress has been made to address the control weaknesses identified within HR Payroll.

Internal Audit will continue to monitor the control environment and have incorporated a further review of teachers pensions as part of the 2012/13 audit plan.

**5. ADVICE TO MANAGEMENT**

- 5.1. During the year internal audit has worked with management on a consultancy/advisory basis on a number of projects, including:
- Putting People First (In Control)
  - Partnership governance and reviews
  - Investigations into fraud, corruption and improper practice

**6. ANTI FRAUD AND CORRUPTION**

- 6.1. Within the year we have proportionately reviewed 'high priority' data matches received as part of the 2010/11 National Fraud Initiative (NFI). Enquiries to date have identified fraud / error of £65,000.
- 6.2. In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of a number of allegations of fraud, corruption or improper practice. A number of these cases were allegations made under the Duty to Act ("Whistleblowing") Policy. Evidence, advice and guidance have been passed to management to pursue internal disciplinary processes where appropriate.

**7. INTERNAL AUDIT PERFORMANCE**

| <i>Annual performance indicators 2011-12</i>  |   |   |
|---|---|---|
| <b>Aspect of service</b>                      | <b>Target output or performance measure</b>   | <b>Actual output or performance</b>                                   |
| <b>Cost and quality of input</b>              | Service costs are within budget   | Outturn report showed under spend resulting from efficiency proposals |
|   | Direct audit days account for 65% of total time available                             | Direct audit days accounted for 78% of total time available           |
| <b>Productivity</b>                           | A minimum of 90% of the annual plan is delivered                                      | 98% of the revised annual plan has been delivered                     |
| <b>Compliance with professional standards</b> | CIPFA Code of practice for internal audit in local government (2006) is complied with | Compliant   |

## 7.2 Internal Audit Resources

On 1 February 2012 Southampton City Council entered into a collaborative partnership with Hampshire County Council for the provision of internal audit services

The development of the Internal Audit Partnership brings together the professional discipline of internal audit across partnering organisations.

The Partnership blends the individual requirements of participating organisations through unique Audit Strategies and governance reporting with the continuity of a modern risk based internal audit approach and reporting protocol enabling efficient and effective service delivery

The Partnership has ambition to optimise realised benefits (pooled expertise, business resilience and the economies of scale partnership working offers) across a wider public sector base.

The Internal Audit Partnership has a vision to deliver

*“A collaborative Audit Partnership delivering an innovative, customer focussed service aligned to business needs and improved outcomes through:*

- *A seamless, flexible and efficient service working across all partners;*
- *Key specialism’s reflective of and adaptive to business need;*
- *Best practice that is embraced, developed and promoted; and*
- *A forward looking Audit Partnership supporting change and transformation across all partners.”*

## 7.3 Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. This was achieved in 2011-12 through the following internal processes:

- Compliance with CIPFA Code of practice for internal audit in local government (2006);
- ongoing liaison and communication with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- ongoing development of a constructive working relationship with the Audit Commission to ensure development of a cooperative assurance approach;
- a tailored audit approach using a defined methodology and assignment control documentation;
- the review and quality control of all internal audit work by professional qualified senior staff members.

## **8. ACKNOWLEDGEMENT**

- 8.1. I would like to take this opportunity to thank all those staff throughout Southampton City Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman  
Chief Internal Auditor  
4<sup>th</sup> June 2012



# Agenda Item 8

|                                     |                        |
|-------------------------------------|------------------------|
| <b>DECISION-MAKER:</b>              | GOVERNANCE COMMITTEE   |
| <b>SUBJECT:</b>                     | BRIBERY ACT POLICY     |
| <b>DATE OF DECISION:</b>            | 02 JULY 2012           |
| <b>REPORT OF:</b>                   | CHIEF INTERNAL AUDITOR |
| <b>STATEMENT OF CONFIDENTIALITY</b> |                        |
| None                                |                        |

## **BRIEF SUMMARY**

The Bribery Act 2010 modernises the law on bribery and came into force on 1 July 2011.

The Act defines bribery as, 'giving someone a financial or other advantage to encourage that person to perform their functions or activities improperly or to reward that person for having already done so'.

The Act is not concerned with fraud, theft, books and record offences, money laundering offences or competition law.

The policy (Annex 1) has been drafted to maintain compliance with the Bribery Act 2010. It consolidates the Council's approach in meeting the requirements of the Act and explains the process through which the Council intends to maintain its high standards and to protect the organisation, employees, Members and business partners against allegations of bribery and corruption.

## **RECOMMENDATIONS:**

- (i) That the Audit Committee approve the Bribery Act Policy.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. To comply with the legislative requirements of the Bribery Act 2010

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2. None

## **DETAIL (Including consultation carried out)**

3. 'The Act' came into force on 1 July 2011 and created a number of new offences:

- Section 1 (Offences of bribing another person):

An offence is committed if a person offers, promises or gives a financial or other advantage to another intending the advantage to induce or reward the improper performance of a function or activity. It is also an offence where a person knows or believes that the acceptance of the advantage offered, promised or given in itself constitutes the improper performance of a relevant function or activity

- Section 2 (Offences relating to being bribed):

An offence is committed if a person requests, agrees to receive or

accepts a financial or other advantage from another, intending the advantage to be rewarded by the improper performance of a function or activity

- Section 6 (Bribery of foreign public officials):

A specific offence of directly or indirectly offering, promising or giving a bribe to a foreign public official. To commit this offence a person must intend the bribe to influence the actions of the foreign public official

- Section 7 (failure of commercial organisations to prevent bribery):

This offence is based on the failure by a commercial organisation to prevent bribery by people acting on its behalf. The Act includes a defence if the organisation can demonstrate (a reverse burden of proof) on the balance of probabilities that despite a particular case of bribery it nevertheless had adequate procedures in place to prevent the bribe.

#### 4. The Section 7 Offence

The Bribery Act 2010 'Guidance' published by the Ministry of Justice considers that procedures put in place by commercial organisations wishing to prevent bribery being committed on their behalf should be informed by six principles. The principles are not prescriptive and are intended to be flexible with bribery prevention procedures proportionate to risk. The six principles are as follows:

- Proportionate procedures – 'A commercial organisation's procedures to prevent bribery by persons associated with it are proportionate to the bribery risks it faces and to the nature, scale and complexity of the commercial organisation's activities. They are also clear, practical, accessible, effectively implemented and enforced.'
- Top-level Commitment – 'The top level management of a commercial organisation (be it a board of directors, the owners or any other equivalent body or person) are committed to preventing bribery by persons associated with it. They foster a culture within the organisation in which bribery is never acceptable.'
- Risk assessment – 'The commercial organisation assesses the nature and extent of its exposure to potential external and internal risks of bribery on its behalf by persons associated with it. The assessment is periodic, informed and documented.'
- Due diligence - 'The commercial organisation applies due diligence procedures, taking a proportionate and risk based approach, in respect of persons who perform or will perform services for or on behalf of the organisation, in order to mitigate identified bribery risks.'
- Communication (including training) – 'The commercial organisation seeks to ensure that its bribery prevention policies and procedures are embedded and understood throughout the organisation through internal and external communication, including training, that is proportionate to the risks it faces.'
- Monitoring and Review - 'The commercial organisation monitors and

reviews procedures designed to prevent bribery by persons associated with it and makes improvements where necessary.'

5. The 'Guidance' states that although commercial organisations with entirely domestic operations may require bribery prevention procedures, the government believes that as a general proposition they will face lower risks of bribery on their behalf by associated persons than those that operate in foreign markets.

The need for procedures to avoid bribery and corruption is not entirely new to public authorities, and the Council already operate a variety of policies and procedures that apply to the Bribery Act 2010. Such policies and mitigation include:

- Members Code of Conduct
- Officer Code of Conduct
- Officer Member Protocol
- Constitution –
  - Officer scheme of delegation
  - Recording officers decisions
- Complaints Procedure
- Anti fraud and anti corruption policy
- Whistleblowing policy
- Council procedure rules
- Contract procedure rules
- Financial procedure rules
- Disciplinary procedures
- Contract of Employment (terms and conditions)
- Internal Audit
- External Audit
- Standards and Governance Committee

6. The Bribery Act Policy consolidates the Council's approach in meeting the requirements of the Bribery Act and makes reference to existing key policies, procedures and codes of conduct.

In accordance with Section 7 of the Act, following approval we will seek to effectively communicate the policy across the organisation as a whole and assess training needs as appropriate.

The Bribery Act Policy has been reviewed and approved the Management Board of Directors

**RESOURCE IMPLICATIONS**

**Capital/Revenue**

None

**Property/Other**

None

**LEGAL IMPLICATIONS**

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

The Bribery Act 2010

**Other Legal Implications:**

None

**POLICY FRAMEWORK IMPLICATIONS**

None

|                |         |                          |      |              |
|----------------|---------|--------------------------|------|--------------|
| <b>AUTHOR:</b> | Name:   | Neil Pitman              | Tel: | 01962 845139 |
|                | E-mail: | Neil.pitman@hants.gov.uk |      |              |

**KEY DECISION?** Yes/No    No

|                                    |  |
|------------------------------------|--|
| <b>WARDS/COMMUNITIES AFFECTED:</b> |  |
|------------------------------------|--|

**SUPPORTING DOCUMENTATION**

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

**Appendices**

|    |                    |
|----|--------------------|
| 1. | Bribery Act Policy |
| 2. |                    |

**Documents In Members' Rooms**

|    |      |
|----|------|
| 1. | None |
| 2. |      |

**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. |  |  |
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## Bribery Act Policy

### 1. Introduction

- 1.1 This policy is introduced to ensure compliance with the Bribery Act 2010. It explains the process through which the Council intends to maintain high standards and to protect the organisation, employees, Members and business partners against allegations of bribery and corruption.
- 1.2 The Council is committed to the highest possible standards of openness probity and accountability and to conduct its business in an honest and open way, and without the use of corrupt practices or acts of bribery to obtain an unfair advantage. The Council attaches the utmost importance to this policy and will apply a “zero tolerance” approach to acts of bribery and corruption by any of its Members, employees, or persons and partners acting on our behalf. Any breach of this policy will be regarded as a serious matter and is likely to result in disciplinary action and possibly criminal prosecution.

### 2. Policy Statement

- 2.1. Bribery is a criminal offence. The Council will not pay bribes, or offer improper inducements to anyone for any purpose, nor will the Council accept bribes or improper inducements. The use of a third party to channel bribes is also a criminal offence. The Council will not engage indirectly in or otherwise encourage bribery.
- 2.2. The Council is committed to ensuring compliance with the highest legal and ethical standards. The Council will commit to policies and procedures to prevent, deter, and detect acts of bribery. The Council will ensure that anti-bribery compliance is an essential aspect of its governance process and at the core of its business principles. It is an on-going process and not a one-off exercise.

### 3. Objective

- 3.1. This policy presents a clear and precise framework to understand and implement the arrangements required to comply with the Bribery Act 2010. It provides the context for the detailed rules, procedures and controls in place. It should provide no room for misinterpretation and will ensure that Members, employees, volunteers and business partners know what is expected of them in preventing bribery.
- 3.2. This policy should be read in conjunction with, and reinforce, other related policies and documents (see paragraph 13). The provisions in these policies and documents should be reflected in every aspect of the way the Council operates. The requirement to act honestly and with integrity at all times is made clear and is fundamental and non-negotiable.
- 3.3. This policy explains the procedures established to prevent acts of bribery and allow any breach to be identified and reported

## **4. Scope**

- 4.1. This policy applies to all of the Council's activities. The Council requires that all Members (including independent and co-opted Members), employees at all levels and grades, temporary and agency staff, volunteers, contractors, agents, consultants and partners acting on the Council's behalf, comply with the provisions of this policy. The Council will also seek to promote the adoption of reciprocal anti-bribery and corruption measures that are consistent with the Council's policy by joint venture partners and major suppliers.
- 4.2. The responsibility to mitigate the risk of bribery resides at all levels of the Council and includes all directorates. It does not rely solely on the Council's assurance functions.

## **5. Policy Commitment**

- 5.1. The Council commits to:
- setting out a clear anti-bribery policy and keeping this up-to-date with regular reviews;
  - making all Members, employees and partners aware of their responsibilities to adhere to this policy at all times;
  - providing training, where appropriate, to allow Members, employees and partners to recognise and avoid the use of bribery by themselves or others;
  - encouraging Members, employees and partners to be vigilant and to report any suspicions of bribery;
  - providing suitable channels of communication (e.g. Whistleblowing Procedure) to ensure that sensitive information is handled appropriately;
  - investigating instances of alleged bribery and assisting the police and other authorities in any prosecution;
  - taking action against anybody acting for or on behalf of the Council who is involved in bribery;
  - reporting breaches and suspected breaches of this policy to Members, employees and partners in an open and transparent way; and
  - including appropriate clauses in contracts with suppliers to advise on the Council's approach to the provisions of the Bribery Act 2010

## **6. The Bribery Act 2010**

- 6.1. The Bribery Act 2010 was introduced to update and enhance English law on bribery. It creates a strict liability corporate criminal offence of failing to prevent bribery. The only defence against this corporate offence is for organisations to have adequate procedures in place to prevent bribery.



6.2. The Act includes four offences:

- Bribing a person to induce or reward them to perform a relevant function improperly
- Requesting, accepting or receiving a bribe as a reward for performing a relevant function improperly
- Using a bribe to influence a foreign official to gain a business advantage and
- In relation to a commercial organisation committing bribery to gain or retain a business advantage, there being no adequate procedures in place to prevent such actions

6.3. Acts of bribery are intended to influence an individual or organisation in the performance of their duty and for them to act illegally.

6.4. The penalties under the Bribery Act have been raised significantly and are severe. The new corporate offence is punishable with an unlimited fine. An individual guilty of an offence may be liable to imprisonment for up to 10 years or to a fine, or to both.

6.5. The Council accepts that public bodies may be classed as a “commercial organisation” in relation to the corporate offence of failing to prevent bribery. In any event, it represents good governance and practice to have adequate procedures in place to protect the Council, Members, employees and partners from reputational and legal damage. It is in the interests of everybody connected to the Council to act with propriety at all times.

## 7. Council Procedures on the Bribery Act

7.1. The Council will follow the guidance issued by the Ministry of Justice. The actions are intended to be proportionate to the risks faced by the Council and to the nature, scale and complexity of the Council’s activities. The actions are expected to provide a defence of “adequate procedures” against any corporate offence. The following steps will be taken:

- **Top Level Commitment** – The Management Board of Directors are committed to preventing bribery by persons associated with the Council. A report on the Bribery Act 2010 and the introduction of this policy has been approved by the Management Board of Directors and the Governance Committee;
- **Risk Assessment** – The nature and extent of the Council’s exposure to external and internal risks of bribery will be assessed as part of the Council’s risk management process. Any risk assessment is intended to be an on-going process based on regular communication and review;
- **Due Diligence** – A proportionate and risk based approach will be taken in respect of persons and other organisations that perform services for or on behalf of the Council. Due diligence will include an evaluation of the background, experience and reputation of business partners. The transactions will be properly monitored and written agreements and contracts will provide references to the Bribery Act 2010 and this policy. Reciprocal arrangements may be required for business partners to have their own policies in place. They will be advised of the Council’s policy and be expected to operate at all times in accordance with such policy;

- **Communication** – The Council will ensure that this policy and other related policies and procedures are embedded in the Council’s working arrangements through appropriate communication, including training, which is proportionate to the risks the Council faces. The Council’s induction programme will include reference to the Bribery Act 2010 and this policy; and
- **Monitoring and Review** – This policy, control arrangements, risk management processes and other related policies and procedures designed to prevent bribery and corruption will be monitored, reviewed and improved where necessary on a regular basis. All incidents of bribery or suspected bribery will be reported to the Governance Committee. An assurance of compliance will be included in the Annual Governance Statement.

7.2. In the context of this policy it is unacceptable for persons acting for or on behalf of the Council to:

- Give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given;
- give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to facilitate or expedite a routine procedure;
- accept payment from a third party that is known to be, or suspected to have been, offered with the expectation that it will obtain a business advantage for them;
- accept a gift or hospitality from a third party if it is known to be, or suspected to have been, offered with an expectation that a business advantage will be provided by the Council in return;
- retaliate against or threaten a person who has refused to commit an act of bribery or who has raised concerns under this policy; and
- engage in any activity in breach of this policy

## 8. **Gifts and Hospitality**

- 8.1. This policy is not intended to change the requirements of the Council’s Gifts and Hospitality policies and procedures.
- 8.2. The guidelines clearly set out the restrictions on accepting gifts and hospitality, the need to inform the manager and the need to register any approved gifts that are retained.
- 8.3. Officers must use discretion when offered hospitality or gifts, and must not accept any cash offered to them. Any gift or hospitality worth more than £25 must be politely refused where possible. Everything with the exception of smaller work related items such as calendars and desk diaries, must be reported to managers and recorded in the central ‘Records of Gifts and Hospitality’ held by Organisational Development on behalf of the Council’s Monitoring Officer.
- 8.4. The procedures for Members’ registers of interest are set out in the Members’ Code of Conduct.

## **9. Public Contracts**

- 9.1. Under the Public Contracts Regulations 2006 (which gives effect to EU law in the UK) a company is automatically and perpetually debarred from competing for public contracts where it is convicted of a corruption offence. It is understood that there are no plans to amend the 2006 regulations for these to include the crime of failure to prevent bribery. Organisations that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts. The Council will use its discretion as to whether to exclude organisations convicted of this offence and any instances where this is the case will be reported to the Management Board of Directors for a decision.

## **10. Member, staff and partner responsibilities**

- 10.1. The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the Council or acting for or on its behalf. All Members, staff, volunteers and partners are required to avoid activity that breaches this policy. Adherence to the policy is mandatory.
- 10.2. Members, staff, volunteers and partners must:
- Ensure that they have read, understood and comply with the Bribery Act Policy; and
  - raise concerns as soon as possible if they believe or suspect that a conflict with this policy has occurred, or may occur in the future
- 10.3. In addition to the possibility of criminal prosecution, members of staff who breach the policy will face disciplinary action, which could result in dismissal for gross misconduct.

## **11. Raising a concern**

- 11.1. Staff are encouraged to raise any concerns with their manager. In addition, the Council has published a Whistleblowing Procedure. This provides information on the courses of action available to report serious concerns (including bribery) in confidence. Members, staff or partners who refuse to accept the offer of a bribe may worry about the repercussions. The Council aims to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.
- 11.2. The Council is committed to ensuring that nobody suffers detrimental treatment through refusing to take part in bribery.

## **12. Review of the Bribery Act Policy**

- 12.1. It is the responsibility of the Head of Finance (CFO) to routinely refresh, review and reinforce this policy and its underlying principles and guidelines. All members of staff are responsible for reading and understanding this policy which will also form part of the induction programme.

12.2. If you have any questions about these procedures, please contact:

**Neil Pitman, Chief Internal Auditor on 01962 845139; [neil.pitman@hants.gov.uk](mailto:neil.pitman@hants.gov.uk);**

**Iona Bond, Audit Manager on 01962 847417; [iona.bond@hants.gov.uk](mailto:iona.bond@hants.gov.uk).**

### **13. Other relevant policies**

- Anti Fraud and Corruption policy
- Anti money laundering policy
- Duty To Act / Whistleblowing policy
- Gifts and hospitality policy
- Contract Procedure Rules
- Financial Procedure Rules
- Code of Corporate Governance
- Officer / Member Protocol

### **14. Useful links**

The Bribery Act - [Bribery Act 2010](#)

Bribery Act final guidance

<http://www.cipfanetworks.net/fileupload/upload/briberyact2010guidance142011261754.pdf>

Bribery Act quick start guide

[http://www.cipfanetworks.net/governance/documentation/download\\_open.asp?sref=TV4PXC437&filename=http://www.cipfanetworks.net/fileupload/upload/briberyact2010quickstartguide142011271739.pdf](http://www.cipfanetworks.net/governance/documentation/download_open.asp?sref=TV4PXC437&filename=http://www.cipfanetworks.net/fileupload/upload/briberyact2010quickstartguide142011271739.pdf)

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# Agenda Item 9

|                                     |  |
|-------------------------------------|--|
| <b>DECISION-MAKER:</b>              | GOVERNANCE COMMITTEE   |
| <b>SUBJECT:</b>                     | AUDIT COMMISSION: UPDATE REPORT AND AUDIT PLAN FOR THE AUDIT OF THE 2011/12 FINANCIAL ACCOUNTS |
| <b>DATE OF DECISION:</b>            | 02 JULY 2012   |
| <b>REPORT OF:</b>                   | CHIEF INTERNAL AUDITOR   |
| <b>STATEMENT OF CONFIDENTIALITY</b> |  |
| None                                |  |

## **BRIEF SUMMARY**

The purpose of this paper is to provide the Governance Committee with a report on progress in the delivery of the Council's external auditors responsibilities. It includes an update on the externalisation of the Audit Practice and key emerging national issues and developments which may be of interest to members of the Governance Committee

This paper also presents the External Auditors Audit Plan 2011/12 for the Audit of the 2011/12 financial accounts. The plan sets out the work for the 2011/12 audit of the statutory accounts and is based on the Audit Commission's risk-based approach to audit planning. The paper also highlights the external auditors:

- Consideration of risks relevant to the audit of the accounting statements;
- Testing strategy;
- Proposed work ;
- Methodology for concluding on the Council's arrangements to secure economy, efficiency and effectiveness; and
- Key milestones and deadlines

## **RECOMMENDATIONS:**

- (i) That the Audit Committee notes the Audit Commissions Update Report and Audit Plan 2011/12 for the audit of the statutory financial accounts

## **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:

- Update report – June 2012
- Audit Plan – 2011 /12

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**

None

**Property/Other**

None

**LEGAL IMPLICATIONS**

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

The duties and powers of auditors appointed by the Audit Commission are set out in the Local Government Act 1999.

**Other Legal Implications:**

None

**POLICY FRAMEWORK IMPLICATIONS**

None

|                |         |                          |      |               |
|----------------|---------|--------------------------|------|---------------|
| <b>AUTHOR:</b> | Name:   | Neil Pitman              | Tel: | 023 8083 4616 |
|                | E-mail: | Neil.pitman@hants.gov.uk |      |               |

**KEY DECISION?** Yes/No    No

|                                    |  |
|------------------------------------|--|
| <b>WARDS/COMMUNITIES AFFECTED:</b> |  |
|------------------------------------|--|



### **SUPPORTING DOCUMENTATION**

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

#### **Appendices**

|    |   |
|----|---|
| 1. | Audit Commission: Update report – June 2012 |
| 2. | Audit Commission: Audit Plan – 2011 /12     |

#### **Documents In Members' Rooms**

|    |      |
|----|------|
| 1. | None |
| 2. |      |

#### **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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# Governance

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# Committee

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# Update

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**Southampton City Council**

**Audit 2011/12**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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# Introduction

**1** The purpose of this paper is to provide the Governance Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.

**2** This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Governance Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has obtained sufficient assurance on emerging issues.

**3** If you require any additional information regarding the issues included within this briefing, please contact me or your Audit Manager using the contact details at the end of this update.

**4** Finally, please also remember to visit our website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) which now enables you to sign up to be notified of any new content that is relevant to your type of organisation.

Kate Handy

District Auditor

June 2012

# Progress report

## Financial statements

**5** My interim audit has been completed and I have updated my understanding of your material financial information systems and the key controls within them. I have used the findings from this work to inform my plan for the audit of your 2011/12 financial statements, which commences in July 2012.

**6** I have reported the key findings from my interim audit in the audit plan that I will present to the Governance Committee in July 2012. I have also reported the more minor issues that arose during my audit to the Head of Finance.

## VFM conclusion

**7** I reported the principal risks identified for my VFM conclusion at the April 2012 meeting of the Audit Committee. I have included them in the audit plan that I will present to the Governance Committee in July 2012.

**8** My work will be completed before I report my value for money conclusion in September 2012.

## Audit progress

**9** I have included details of progress with my audit at appendix 1.

# Update on outsourcing the work of the Audit Practice

**10** Following the award of geographical contracts for the audit of principal local authorities and NHS bodies, the Audit Commission has held meetings in each contract area to introduce the winning firms to audited bodies.

**11** It has in parallel commenced consultation on the appointment of auditors to individual bodies with a view to making those appointments at its Board meeting on 26 July 2012. Firms will take up audit appointments for the 2012/13 audit year from 1 September 2012 when the interim appointment of the current auditor will come to an end.

**12** Following consultation with audit suppliers, the Audit Commission has put in place arrangements to facilitate the smooth transfer of any part-completed 2011/12 work from the Audit Practice to incoming audit firms so that they can maximise reliance on the work of the Audit Practice and complete the work expeditiously. For Southampton City Council the certification of grant claims and returns may not be completed by 31 October 2012. In particular the certification the Housing and Council Tax Benefits Subsidies Claim, Housing Subsidies Claim and Teachers Pensions return for 2011/12.



## Update on the residual Audit Commission

**13** The Audit Commission is reducing and reshaping its workforce so that it can deliver its remaining core functions of audit regulation, contract management and sector support.

**14** The Department of Communities and Local Government has advertised for a new Chairman of the Audit Commission to lead through the period of transition and downsizing. The new Chairman will take up post following the end of the term of office of the current Chairman in September 2012.

# Other matters of interest

## 2012/13 audit fees

### Fee scales for 2012/13 audits of local government and NHS bodies

**15** Following a consultation exercise, the Audit Commission has agreed the work programme and fee scales for 2012/13 audits of local government and NHS bodies. It sent out letters notifying organisations of the new fees on Wednesday 11 April 2012.

**16** As previously advised, the outsourcing of the Audit Commission's in-house Audit Practice means that these fees will be fixed for a five-year period, irrespective of the rate of inflation.

**17** The fee scales letter for 2012/13 and a schedule individual audited bodies fees can be found by following the attached internet links.

<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201213fees/Pages/201213feesandworkprogramme.aspx>

[http://www.audit-commission.gov.uk/audit-regime/audit-fees/201213fees/pages/individualfees\\_lgfire.aspx](http://www.audit-commission.gov.uk/audit-regime/audit-fees/201213fees/pages/individualfees_lgfire.aspx)

### Fee scales for 2012/13 National Fraud Initiative

**18** The Audit Commission's consultation on its proposals for the 2012/13 National Fraud Initiative (NFI) work programme and scale of fees ended in March 2012 and the results of this exercise were published on 30 May 2012.

**19** The Commission did not propose to introduce any new mandatory data matches in the NFI for 2012/13, so the main work programme will remain unchanged from 2010/11.

**20** In recognition of the financial pressures that public bodies are facing in the current economic climate, the scale of fees for mandatory participants will also remain the same as for NFI 2010/11.

**21** A link to the NFI fee scale is given below:

<http://www.audit-commission.gov.uk/fraud/nfi/public-sector/Pages/fees.aspx>

## 2010/11 National Fraud Initiative

**22** In May 2012 the Audit Commission published the results of the NFI for 2010/11.

**23** The NFI is a data matching exercise which is hosted on a secure website. It compares information held by around 1,300 organisations including councils, the police, hospitals and 77 private companies. This helps to identify potentially fraudulent claims, errors and overpayments.

**24** When there is a 'match', there may be something that warrants investigation and examples of the data matches the NFI undertakes are set out in the table below.

Table 1: **Examples of data matches covered by the NFI**

| Data Match                                      | Possible fraud or error   |
|---|---|
| Pension payments to records of deceased people. | Obtaining the pension payments of a deceased person.  |
| Housing benefit payments to payroll records.    | Claiming housing benefit while failing to declare an income.  |
| Council tax records to electoral register.      | A council taxpayer gets single person discount whilst living with other countable adults and thus being ineligible. |
| Payroll records to other payroll records.       | An employee is working for one organisation while being on long-term sick leave at another.                         |

**25** The latest NFI in England identified almost £229 million of fraud, overpayments and errors. This is made up of £139 million for 2010/11 plus £90 million not previously reported from earlier exercises. Over the same period, £47 million was identified in Scotland, Wales and Northern Ireland, raising the UK-wide total to £275 million.

**26** The highest value categories identified in England continue to be pensions (£98 million), council tax single person discount (£50 million) and housing benefit (£31 million).

**27** The latest report is accompanied by a series of case studies from the private and public sectors and a briefing for elected members. The briefing includes a series of questions that members can put to officers.

**28** Since the initiative's started in 1996, the programme has helped detect £939 million, taking it a step closer to achieving a £1 billion payback to the public purse.

**29** A link to the report is given below

<http://www.audit-commission.gov.uk/fraud/nfi/reports/Pages/default.aspx>

## Public Sector Internal Audit Standards

**30** The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) announced a formal collaboration in May 2011.

**31** This collaboration has recently led to the formation of the UK Internal Audit Standards Advisory Board, which will provide oversight and challenge to the development of UK-wide Public Sector Internal Audit Standards.

**32** The new unified set of internal audit standards will be based on the mandatory elements of the IIA's International Professional Practices Framework and it is proposed that they will apply across the UK to central and local government and the NHS (excluding foundation trusts).

**33** A link to the announcement by Cipfa is provided at:

[http://www.cipfa.org.uk/press/press\\_show.cfm?news\\_id=61685](http://www.cipfa.org.uk/press/press_show.cfm?news_id=61685)

## Payment by results

**34** The Audit Commission published *Local payment by results* on 5 April 2012. This is a briefing paper which considers potential issues arising from local authorities using payment by results (PbR) as a method of commissioning and paying for services.

**35** PbR is a new approach, where commissioners pay service providers according to how well they achieve specified outcomes, rather than by outputs or volumes of service. These outcomes may be social, economic, financial, or a combination of all three. PbR is not the only contract type that rewards good performance, and commissioners should always consider other options alongside PbR to choose the most suitable approach.

**36** What sets PbR apart from other contract types is that a significant amount of payment is withheld until the results are delivered. The payment is directly related to the level of success.

**37** National PbR schemes are developing quickly. Some early schemes include reducing reoffending; diverting young offenders from custodial sentences; helping the unemployed to find work; preventing children from being taken into care; keeping frail older people in their own homes; and improving the management of chronic health conditions.

**38** The briefing sets out to help councils understand what PbR might entail. As most schemes are at an early stage, the Audit Commission has identified a range of issues that local commissioners should consider if they are to use PbR successfully, drawing on some national and international examples.

**39** The briefing suggests that there are five principles that any PbR scheme needs to meet if it is likely to succeed:

- a clear purpose;
- a full understanding of the risks;
- a well-designed payment and reward structure;
- sound financing; and
- effective management and evaluation.

**40** The Audit Commission has sent the briefing to council chief executives and other key stakeholders. The briefing can be found by using the internet link below:

<http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/localpbr.aspx>

## The rights of local electors

**41** The Audit Commission has published an updated version of *Council accounts: a guide to your rights*. The publication aims to help local electors by explaining their rights and how to engage with auditors in relation to the accounts. It also points electors to other sources of advice and more information where they have concerns that are not about the accounts.

**42** The publication is accompanied by a Notice of an Objection form designed to assist electors wishing to present their objection to an item or items of accounts to the auditor.

**43** Members of the Governance Committee may find it helpful to familiarise themselves with the document which can be found on the Audit Commission's website.

<http://www.audit-commission.gov.uk/audit-regime/support-guidance/Pages/councilsaccountsyourrights03072006.aspx>

## NAO role in local VFM studies

**44** The NAO currently carries out around 60 VFM studies on central government initiatives and programmes each year. From next year, it will produce an increasing number of studies focusing on the local government sector.

**45** A new Local Government Reference Panel has been set up to give councils an input to the NAO's programme of local government value for money studies. The panel, which will meet twice a year, includes representatives from nine local authorities as well as from CIPFA, Community Service Volunteers and the University of Birmingham.

**46** The programme comprises three studies in 2012/13, the first being communication between central and local government, rising to four in 2013/14 and six in 2014/15.

**47** Subject to Parliamentary approval, the NAO eventually expects to assume the Audit Commission's role in setting the framework for local audit, through a code of audit practice.

## CIPFA's brief guide to Local Government Finance reforms

**48** As the Local Government Finance Bill enters its concluding stages in the House of Commons, CIPFA has published a guide to some of the proposed changes.

**49** CIPFA's *Brief Guide to Local Government Finance Reforms* seeks to answer some common questions that local government officers and elected members may have surrounding the localisation of support for council tax and business rate retention.

**50** The guide explains the purpose of the proposals and their impact. It includes simplified examples of the proposed changes. At the time of writing, all the legislation and guidance has yet to be published, so the guide represents the latest known position. CIPFA will publish additional guidance once the detail becomes known. The guide can be found on the link below.

[http://www.cipfa.org.uk/panels/lgpp/download/Brief\\_guide\\_to\\_local\\_government\\_finance\\_reform.doc](http://www.cipfa.org.uk/panels/lgpp/download/Brief_guide_to_local_government_finance_reform.doc)

# Key considerations

**51** The Governance Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Committee asked officers the questions set out in the Audit Commission's NFI briefing for elected members? Is the Committee satisfied with the answers?
- Have officers considered the Audit Commission's briefing paper on local payment by results agreements?

## Contact details

**52** If you would like further information on any items in this briefing, please contact either your District Auditor or Audit Manager.

**53** Alternatively, all Audit Commission reports – and a wealth of other material – can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

Kate Handy

District Auditor

0844 798 1740

[k-handy@audit-commission.gov.uk](mailto:k-handy@audit-commission.gov.uk)

Mike Bowers

Audit Manager

077881518961

[m-bowers@audit-commission.gov.uk](mailto:m-bowers@audit-commission.gov.uk)



## Appendix 1 Progress with the 2011/12 audit

| Report                                     | AC key contact | Authority contact              | Expected report         | Reported to Governance Committee | Comment   |
|--|----------------|--------------------------------|-------------------------|----------------------------------|---|
| Audit plan 2011/12                         | Kate Handy     | Audit and Governance Committee | June 2011 and June 2012 | June 2011 and July 2012          | The initial fee letter for 2011/12 was presented to the audit committee in June 2011.<br><br>A more detailed audit plan is on the agenda for the Governance Committee in July 2012.                       |
| <b>Financial statements</b>                |                |                                |                         |                                  |   |
| Interim audit memorandum (If appropriate)  | Mike Bowers    | Andrew Lowe                    | June 2012               | Not required                     | The audit was completed in April 2012. The key findings are reported in my more detailed audit plan that is on the July 2012 agenda.<br><br>I have reported the more minor issues to the Head of Finance. |
| Annual Governance Report (ISA260)          | Kate Handy     | Governance Committee           | September 2012          |                                  |   |
| Accounts opinion                           | Kate Handy     | Governance Committee           | September 2012          |                                  |   |
| Final Accounts memorandum (If appropriate) | Mike Bowers    | Andrew Lowe                    | October 2012            |                                  |   |
| <b>Value for money conclusion</b>          |                |                                |                         |                                  |   |
| Value for money conclusion                 | Kate Handy     | Governance Committee           | September 2012          |                                  |   |

| Report   | AC key contact | Authority contact | Expected report | Reported to Governance Committee | Comment  |
|--|----------------|-------------------|-----------------|----------------------------------|--|
| <b>Certification of grant claims and returns</b> |                |                   |                 |                                  |  |
| Annual report                                    | Mike Bowers    | Andrew Lowe       | March 2012      | April 2012                       | The report was presented to the Audit Committee in April 2012. |
| <b>Annual Audit Letter</b>                       |                |                   |                 |                                  |  |
| Annual Audit Letter                              | Kate Handy     | Alistair Neill    | October 2012    |                                  |  |

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**0844 798 7070**

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



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# Audit plan

Southampton City Council

Audit 2011/12



Agenda Item 9

Appendix

 audit  
commission

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# Introduction

**This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.**

## **Responsibilities**

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Standards and Governance Committee, as those charged with governance, of their responsibilities.



# Accounting statements and Whole of Government Accounts

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**I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.**

## **Materiality**

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

## **Identifying audit risks**

I need to understand the Council to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Council, including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.



## Identification of risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Risks**

| Risk  | Audit response  |
|---|---|
| <p><b>Equal pay claims, assessment of the provision and accounting</b></p> <p>The Council has decided to provide full disclosure of its provision for equal pay claims in its 2011/12 financial statements and to restate its prior year comparatives. It will also account for all of the compensation payments that have been made during 2011/12.</p>  | <p>I am satisfied with the Council's assertion that the payments that have been made to staff in respect of equal pay claims are 'compensation' and not arrears of pay. I will review the disclosures that are made in the 2011/12 financial statements and the accounting treatment of the compensation payments that have been made during 2011/12.</p> |
| <p><b>Heritage Assets</b></p> <p>The 2011/12 Code adopts the requirements of Financial Reporting Standard (FRS) 30 Heritage Assets. There is a risk that the Council may be unable to identify and account for all heritage assets due to the number and different locations, collections and other items involved.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. For Southampton City Council this is likely to include your art and museum collections.</p> | <p>I am satisfied with the management controls that you have put in place to recognise and value heritage assets. I will however check that the Council has accounted for its heritage assets in accordance with FRS 30 and the Code, and whether the disclosures in the financial statements are materially correct.</p>                                 |
| <p><b>New Housing Revenue Account (HRA) financing regime</b></p> <p>Following the implementation of the new HRA financing regime the Council will need to borrow in excess of £75 million in March 2012, in order to finance the payment of the settlement to the CLG on 28 March 2012.</p>   | <p>I have substantively tested the borrowing of these funds and payment made to the CLG and have nothing to report to members at this stage. I will review the disclosure of these transactions in the 2011/12 financial statements as part of my audit.</p>  |

| Risk   | Audit response  |
|--|---|
| <p><b>Existing PFI schemes</b></p> <p>The Council has a number of material PFI schemes in operation that it continues to disclose in its financial statements.</p>   | <p>I will review the disclosure of PFI schemes in the draft financial statements to ensure that they comply with the Code of Practice. Any material changes will be substantively tested during my audit.</p>   |
| <p><b>Valuation of property, plant and equipment</b></p> <p>The valuation of property, plant and equipment (PPE) may be misstated due to inaccurate valuations, the misclassification of assets or applying an incorrect valuation method or basis.</p>  | <p>I will agree the revaluation or restatement of PPE to the fixed asset register and supporting information including any reclassification of investment properties.</p>   |
| <p><b>Accounting for schools</b></p> <p>Property, plant and equipment maybe materially misstated due to the incorrect inclusion or omission of schools in the balance sheet.</p>   | <p>I will review the Council's accounting policy for different categories of schools and check that this is consistent with the requirements of IAS 16, and test a sample of schools to ensure that they have been correctly included or excluded from the balance sheet.</p> |
| <p><b>Testing strategy</b></p> <p>My audit involves:</p> <ul style="list-style-type: none"> <li>■ review and re-performance of work of your internal auditors;</li> <li>■ testing of the operation of controls;</li> <li>■ reliance on the work of other auditors;</li> <li>■ reliance on the work of experts; and</li> <li>■ substantive tests of detail of transactions and amounts.</li> </ul> <p>I have sought to:</p> <ul style="list-style-type: none"> <li>■ maximise reliance, subject to review and re-performance, on the work of your internal auditors; and</li> <li>■ maximise the work that can be undertaken before you prepare your accounting statements.</li> </ul> <p>The nature and timing of my proposed work is as follows overleaf.</p> |   |

Table 2: **Proposed work**

|               | <b>Review of internal audit</b>   | <b>Controls testing</b>  | <b>Reliance on the work of other auditors</b> | <b>Reliance on work of experts</b>   | <b>Substantive testing</b>  |
|---------------|---|--|---|--|---|
| Interim visit | <p>General Ledger</p> <p>Accounts payable</p> <p>Housing &amp; Council Tax Benefits</p> <p>Payroll</p> <p>Cash collection</p> <p>Treasury management</p> <p>Accounts receivable</p> <p>Council Tax</p> <p>NNDR</p> <p>Housing Rents</p> <p>Housing Repairs</p> <p>Property, Plant &amp; Equipment</p> | <p>General ledger</p> <p>Accounts payable</p> <p>Housing &amp; Council Tax Benefits</p> <p>Payroll</p> <p>Cash collection</p> <p>Treasury management</p> |   | <p>Advice to the Council from its legal advisors in respect of 'Equal Pay claims'.</p> | <p>Equal pay provision and payments</p> <p>Investments and borrowing, including new loans and payments made to the CLG in respect of the transfer of debt under the new HRA financing regime. Opening balances at 1 April 2011.</p> <p>Accounting for heritage assets (FRS30).</p> <p>Implementation of previous recommendations regarding 'heating charges'.</p> |

|             | Review of internal audit | Controls testing                       | Reliance on the work of other auditors                               | Reliance on work of experts   | Substantive testing  |
|-------------|--------------------------|--|--|---|--|
| Final visit |                          | Year-end feeder system reconciliations | Pensions assets and liabilities – auditor to Hampshire Pension Fund. | Pensions liabilities and assets – AON Hewitt and our own consulting actuary.<br>Valuation of property, plant and equipment – the Council’s valuers and our own consulting valuers Gerald Eve. | Income and Expenditure cut-off testing.<br>All material accounts balances and amounts.<br>Accounting for schools – categorisation and disclosures.<br>Analytical review of payroll transactions.<br>Disclosure of heritage Assets in line with FRS 30<br>PPE transactions, existence testing and deeds.<br>Income testing – government grants, council tax and NNDR.<br>Data supplied to the Actuaries that are engaged in respect of the pension fund.<br>Compliance with the ‘Service Reporting Code of Practice’. |

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

## **IT Risk Assessment**

The evidence based Information Technology Risk Assessment that was completed last year has been revisited as part of my audit. This involved the documentation and testing of general and application IT controls in order to confirm that the controls are operating effectively and that no weaknesses are identified which might impact on my opinion on the financial statements. Controls testing has been undertaken for the Agresso general ledger and Accounts Payable and Northgate ResourceLink Payroll systems.

Overall, our conclusion is that the controls in place are adequate. There have been no major changes since my 2010/11 audit and most of the issues that I raised with management last year have been addressed. I have raised some more minor issues with management as part of my audit.

## **Whole of Government Accounts**

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

# Value for money

---

## **I am required to reach a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.**

My conclusion on the Council's arrangements is based on two criteria, specified by the Commission. These relate to the Council's 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.

## **How I form my value for money conclusion**

To form my view on the Council's arrangements, I plan a programme of VFM audit work based on my risk assessment. This includes the following.

- Capturing what I know already from last year's work, the Audit Commission's VFM profiles, my continuing reviews of minutes and discussions with officers.
- Considering how the Council is addressing the issue I raised last year in my Annual Audit Letter of the impact of new funding arrangements due to changes in arrangements for business rates and council tax benefits.
- Considering risks that are common to some or all Councils, including the Finance Settlement 2012/13, formula grant changes and Council Tax freeze grants.

## **Identification of significant risks**

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work.

Table 3: **Significant risks**

| Risk   | Audit response  | Separate audit output? |
|--|---|------------------------|
| <p>There are a number of uncertainties facing the Council in its medium term financial planning. These include its level of funding for the medium term, due to changes being made through the local government resource review (eg opportunities to retain business rates) and the delivery of the savings plans.</p> | <p>Review the Council's medium term financial planning, the reasonableness of its assumptions, the planned savings, and its sensitivity and scenario analysis.</p>  | <p>No.</p>             |
| <p>The recommended improvements to the management and performance monitoring arrangements in relation to Street Lighting, Highways Maintenance and the Adult Health and Social Care should have been implemented and have started to deliver improvements during 2011/12.</p>  | <p>Review Internal Audit's 2011/12 report on each of these services, to assess whether the predicted improvement to the management and performance monitoring arrangements has been delivered.</p>                                    | <p>No</p>              |
| <p>The Council is now progressing with Phase 2 &amp; 3 of its estate regeneration programme. These schemes represent a significant commitment of funding and resources by the Council and its private and public sector partners.</p>  | <p>Update my understanding of the progress that has been made during 2011/12 on each of these schemes. I will review relevant reports to Cabinet and the Council and hold discussions with officers where I feel they are needed.</p> | <p>No</p>              |

# Key milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

| Activity   | Date                           | Output   |
|--|--------------------------------|--|
| Opinion: controls and early substantive testing            | February 2012 – April 2012     | Report only by exception if significant control failures identified. |
| Opinion: receipt of accounts and supporting working papers | 30 June 2012                   | N/A  |
| Opinion: substantive testing                               | 1 July 2012 – September 2012   | Annual Governance Report   |
| Value for money: medium term finances                      | February 2012 - September 2012 | Annual Governance Report   |
| Value for money: other work                                | February 2012 – September 2012 | Annual Governance Report   |
| Present Annual Governance Report at the Audit Committee    | September 2012                 | Annual Governance Report   |
| Issue opinion and value for money conclusion               | By 30 September 2012           | Auditor's report   |
| Summarise overall messages from the audit                  | October 2012                   | Annual Audit Letter  |



# The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

| Name                           | Contact details   | Responsibilities   |
|--------------------------------|---|--|
| Kate Handy<br>District Auditor | <a href="mailto:k-handy@audit-commission.gov.uk">k-handy@audit-commission.gov.uk</a><br>0844 798 1740   | Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive. |
| Mike Bowers<br>Audit Manager   | <a href="mailto:m-bowers@audit-commission.gov.uk">m-bowers@audit-commission.gov.uk</a><br>0788 151 8961 | Manages and coordinates the different elements of the audit work. Key point of contact for the Head of Finance.                                    |
| Steve High<br>Team Leader      | <a href="mailto:s-high@audit-commission.gov.uk">s-high@audit-commission.gov.uk</a><br>0777 957 6294     | Responsible for leading the opinion audit day-to-day liaison with Finance.   |

# Independence and quality

## Independence

I comply with the ethical standards issued by the APB and with the Commission’s additional requirements for independence and objectivity as summarised in appendix 1.

I am aware of the following relationships that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguards to reduce the threat.

Table 6: Threats and safeguards

| Threat  | Safeguard  |
|---|--|
| One of the members of my team has a relative working for the Council.   | I have ensured that this officer is not involved in the audit of the payroll system or in service areas where his relative is employed. Any transactions relating to or made by the relevant officers, if randomly sampled, will be tested by other members of the audit team. |
| A former employee of the Audit Commission is employed in your Finance Department. The Audit Manager was the line manager for this individual when he worked for the Audit Commission. | I will review any work completed by the Audit Manager that involved this ex employee of the Audit Commission.  |

## Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission’s Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

# Fees

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## The fee for the audit is £315,360, as set out in my letter of 28 April 2011.

### The audit fee

The Audit Commission has set a scale audit fee of £315,360 which represents a 10 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

### Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Head of Finance and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

### Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I will work with officers to continue to identify any opportunities that you could take.

## Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 7: Fees

|                                       | 2011/12 proposed | 2010/11 actual  | Variance        |
|---------------------------------------|------------------|-----------------|-----------------|
| Audit                                 | £315,360         | £350,400        | -£35,040        |
| Certification of claims and returns * | £66,000          | £76,000         | -£10,000        |
| Non-audit work                        | 0                | 0               | 0               |
| <b>Total</b>                          | <b>£381,360</b>  | <b>£426,400</b> | <b>-£45,040</b> |

\* Note that the certification of claims and returns fee has been reduced from the £78,000 that I proposed in my initial fee letter dated 28 April 2011 because I am no longer required to certify claims or returns in respect of the Housing Subsidies (Advance) claim; Disabled Facilities Grants; New Deal for Communities or Sure Start & Early Years scheme.

# Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 8: Independence and objectivity

| Area  | Requirement   | How we comply   |
|---|---|---|
| Business, employment and personal relationships | Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.<br>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body. | All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level. |

| Area  | Requirement   | How we comply   |
|---|---|---|
| Long association with audit clients   | The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.   | The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.  |
| Gifts and hospitality   | The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.  | All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval. |
| Non-audit work  | <p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p> | All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.       |
| <i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i> |   |   |

# Appendix 2 – Basis for fee

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In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
  - internal controls are operating effectively; and
  - I am able to rely on the work of experts.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Authority provides:
  - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements;
  - other information requested within agreed timescales; and
  - prompt responses to draft reports.
- There are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

# Appendix 3 – Glossary

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## **Accounting statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Annual Audit Letter**

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.



## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

## **Auditor(s)**

Auditors appointed by the Audit Commission.

## **Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

## **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

## **Group accounts**

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

## **Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

## **Significance**

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority, its Standards and Governance Committee (including where responsibilities have been delegated to the Audit Committee) which is to be replaced by the Governance Committee in 2012/13.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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