

Governance Committee

Monday, 23rd April, 2018
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Committee Room 1 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Barnes-Andrews (Chair)
Councillor Keogh (Vice-Chair)
Councillor Inglis
Councillor Jordan
Councillor Noon
Councillor O'Neill
Councillor Parnell

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.

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

Public Representations At the discretion of the Chair, members of the public may address the meeting on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda

The Southampton City Council Strategy (2016-2020) is a key document and sets out the four key outcomes that make up our vision.

- Southampton has strong and sustainable economic growth
- Children and young people get a good start in life
- People in Southampton live safe, healthy, independent lives
- Southampton is an attractive modern City, where people are proud to live and work

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

Mobile Telephones:- Please switch your mobile telephones to silent whilst in the meeting

Use of Social Media:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting. By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.

Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.

Details of the Council's Guidance on the recording of meetings is available on the Council's website.

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.

Dates of Meetings: Municipal Year 2017/18

2017	2018
12th June	12th February
24th July	23rd April
13th November	
11th December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Governance Committee are contained in Part 3 of the Council's Constitution.

[03 - Part 3 - Responsibility for Functions](#)

Rules of Procedure

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

DISCLOSURE OF INTERESTS

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

DISCLOSABLE PECUNIARY INTERESTS

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

- (i) Any employment, office, trade, profession or vocation carried on for profit or gain.
- (ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

- a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
- b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

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

1 DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

2 APOLOGIES

To receive any apologies.

3 STATEMENT FROM THE CHAIR

4 MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING) (Pages 1 - 4)

To approve and sign as a correct record the Minutes of the meeting held on 12th February 2018 and to deal with any matters arising, attached.

5 ANNUAL REVIEW OF THE CONSTITUTION (Pages 5 - 8)

Report of the Service Director: Legal & Governance reviewing the Constitution, attached.

6 REVIEW OF THE CONSTITUTION – CRITERIA FOR CONFERRING ALDERMEN STATUS (Pages 9 - 14)

Report of the Service Director, Legal and Governance proposing a criteria for Honorary Aldermen as part of a review of the Council's Constitution, attached.

7 LOCAL AUTHORITY TRADING COMPANY (LATCO) - AMENDMENTS TO KEY DECISION THRESHOLDS AT COMPANY BOARD MEETINGS (Pages 15 - 20)

Report of Service Director: Legal and Governance detailing proposals for amendment to key decision thresholds for decisions taken at LATCO Board meetings by SCC appointed Officers and Members in order to ensure compliance with approved Company Articles and companies' law, attached.

8 CODE OF CORPORATE GOVERNANCE - ANNUAL REVIEW (Pages 21 - 30)

Report of the Service Director: Legal & Governance detailing the Code of Corporate Governance Annual Review, attached.

9 ANNUAL INTERNAL AUDIT PLAN 2018-19 (Pages 31 - 44)

Report of Chief Internal Auditor detailing the Annual Internal Audit Plan 2018-19, attached.

10 INTERNAL AUDIT PROGRESS REPORT 2017-18 (Pages 45 - 56)

Report of the Chief Internal Auditor detailing progress of the 2017-18 Internal Audit Report, attached.

11 INTERNAL AUDIT & COUNTER FRAUD CHARTER & CODE OF ETHICS 2018-19
(Pages 57 - 76)

Report of Chief Internal Auditor seeking approval of the Internal Audit and Counter Fraud Charter and Code of Ethics 2018-19, attached.

12 INTERNAL AUDIT - REVIEW OF POLICIES 2018-19 (Pages 77 - 104)

Report of Chief Internal Auditor seeking approval of the review of a number of policies 2018/19, attached.

13 RISK MANAGEMENT POLICY AND ANNUAL ACTION PLAN (Pages 105 - 136)

Report of the Chief Financial Officer detailing updates to the Council's Risk Management Policy and providing a risk management action plan for 2018-19, attached.

14 EXTERNAL AUDIT - PROGRESS REPORT (Pages 137 - 146)

Report of External Auditor providing a progress report, attached.

Friday, 13 April 2018

Service Director, Legal and Governance

GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 12 FEBRUARY 2018

Present: Councillors Barnes-Andrews (Chair), Keogh (Vice-Chair), Inglis, Jordan (minute 34-39 and 43), Noon and Parnell

34. **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

RESOLVED: that the minutes for the Committee meeting on 13th November 2018 be approved and signed as a correct record.

35. **QUARTERLY HR STATISTICS**

The Committee received and noted the report of the Service Director Human Resources and Organisational Development detailing Quarterly HR Statistics.

A Member of the Committee requested that the press and the public be excluded from the meeting in order that the item could be discussed in more detail than that contained within the report.

RESOLVED: that the Chair moved in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of further discussion of this item.

Confidentiality was based on Categories 1, 2 and 3 of paragraph 10.4 of the Access to Information Procedure Rules. The information contained therein was potentially exempt as it related to information relating to an individual, information likely to disclose the identity of an individual and information relation to the financial or business affairs of any person including the Authority. Having applied the public interest test it was not appropriate to disclose this information.

36. **TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2018/19 TO 2021/22**

The Committee considered the report of the Service Director Finance and Commercialisation detailing the Treasury Management Strategy and Prudential Limits 2018/19 to 2021/22.

The Committee noted that there was a change in the Minimum Revenue Provision (MRP) which was as result of CIPFA publishing revised editions of the Treasury Management and Prudential Codes in December 2017 which effected the property investment fund and changed the way in which repayment was made. The Council was currently considering this change which would result in a pressure in 2018/19 and future years which would be reported to full Council on 21st February 2018.

Councillor Chaloner, Cabinet Member for Finance was in attendance and with the consent of the Chair addressed the meeting.

RESOLVED:

- (i) That the Treasury Management (TM) Strategy for 2018/19 as outlined in the report be endorsed;
- (ii) That the 2018 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 85 to 94 be endorsed;
- (iii) That the indicators as reported had been set on the assumption that the recommendations in the Capital update report would be approved by Council on 21st February 2018. Should the recommendations change the Prudential Indicators may have to be recalculated; and
- (iv) That due to the timing of this report changes may still be required following the finalisation of capital and revenue budgets and therefore any significant changes to this report would be highlighted in the final version presented to Council on 21st February.

37. CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2016/17

The Committee received and noted the report of the External Auditor detailing the Certification of Claims and Returns Annual Report 2016/17 and the findings from the certification of the 2016/17 Housing Benefit Subsidy Claim.

The Committee noted that the Council had performed well in the Housing Benefit sampling and provided assurance that they were being dealt with accurately.

38. LOCAL APPOINTMENT OF EXTERNAL AUDITORS

The Committee considered the report of the Service Director Finance and Commercialisation providing an update regarding the appointment of an external auditor from 1st April 2018 and summarised the outcome of the procurement exercise undertaken by Public Sector Audit Appointments (PSAA) in their capacity as an “appointing person” which followed the decision taken by Full Council in November 2016 that the Council should opt in to the national scheme rather than make its own auditor appointment.

RESOLVED: that the outcome of the procurement exercise undertaken by PSAA which had resulted in Ernst & Young LLP being appointed to audit the accounts of Southampton City Council for five years, from 2018/19 to 2022/23 and that scale fees were expected to reduce by approximately 23% compared to the 2017/18 fees be noted.

39. EXTERNAL AUDIT PLAN YEAR ENDING 31ST MARCH 2018

The Committee received and noted the report of the External Auditor detailing the External Audit Plan year ending 31st March 2018 and summarised the external auditor’s initial assessment of the key risks driving the development of an effective audit for the Council and outlined the planned audit strategy in response to those risks.

40. **ANNUAL GOVERNANCE STATEMENT 2017-18**

The Committee considered the report of the Chief Financial Officer detailing the Annual Governance Statement 2017-18 in accordance with the requirements of the Accounts and Audit Regulations.

RESOLVED: that the assurance gathering process to support the development of the 2017 – 18 Annual Governance Statement as detailed in Appendix 1 of the report be approved.

41. **PROCUREMENT - SUB £100K SPEND**

The Committee received and noted the report of the Service Director, Digital and Business Operations detailing progress in improving compliance and the further remedial actions which were being implemented in relation to “Procurement – Sub £100k spend”.

The Committee requested that a further progress report be submitted to the September meeting for information.

42. **EXCLUSION OF THE PRESS AND THE PUBLIC**

RESOLVED: that the Chair moved in accordance with the Council’s Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of the appendix to the following item.

Confidentiality was based on Category 5 of paragraph 10.4 of the Access to Information Procedure Rules. Having applied the public interest test it was not appropriate to disclose this information.

43. **INTERNAL AUDIT PROGRESS REPORT 2017-18**

The Committee received and noted the report of the Internal Audit Progress Report for the period 26th October 2017 to 26th January 2018.

The Committee also noted the confidential appendix to the report.

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Agenda Item 5

DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:	ANNUAL REVIEW OF THE CONSTITUTION		
DATE OF DECISION:	23RD APRIL 2018 (GOVERNANCE COMMITTEE) 16TH MAY 2018 (COUNCIL)		
REPORT OF:	SERVICE DIRECTOR: LEGAL & GOVERNANCE		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail:	Richard.ivory@southampton.gov.uk	
Director	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail:	Richard.ivory@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
None			
BRIEF SUMMARY			
This report sets out the annual review of the Constitution. This will be considered and initially discussed by Governance Committee on 23rd April 2018. The recommendations to both the Governance Committee and Council are included below.			
As ever the Constitution is a document that changes regularly and therefore further revisions may be proposed prior to or at Council.			
RECOMMENDATIONS:			
Governance Committee			
	(i)	To consider and recommend the changes to the Constitution to Council for adoption.	
Council			
	(i)	to agree the changes to the Constitution and associated arrangements as set out in this report;	
	(ii)	to authorise the Service Director: Legal & Governance to finalise the arrangements as approved by Full Council and make any further consequential or minor changes arising from the decision of Council	
	(iii)	to approve the City Council's Constitution, as amended, including the Officer Scheme of Delegation, for the municipal year 2018/19	
REASONS FOR REPORT RECOMMENDATIONS			
1.	It is appropriate as a core tenet of good governance for the Council to keep its Constitution under regular review and to amend it, both to reflect experience and changing circumstances.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	The Council has previously resolved to review its Constitution annually. Therefore, it is appropriate that this report is considered by Members. There are a range of recommendations set out within the report, none of which are		

	substantial changes. Members have a range of options about various changes not least of which is to amend or reject some or all of them.
DETAIL (Including consultation carried out)	
<u>Governance Committee - Employment matters</u>	
3.	Since last July all matters relating to hearings and determination of any employee grievance or appeal under the Council's disciplinary, grievance, dismissal and other employee relations procedure are delegated to Directors to determine. This accords with national HR good practice and has reduced timelines.
4.	Authority to dismiss is currently set out in the Scheme of Delegation and there is no proposal to amend that. However, it is proposed that all appeals against dismissal will be heard by a member of the Council's Management Team rather than the small Senior Leadership Team to simply spread the workload, with appropriate advice and support from Human Resources and Legal Services. This will include appeals against the following dismissals:
	<ul style="list-style-type: none"> • Disciplinary • Ill-Health • Redundancy • Capability • Probationary • SOSR
5.	School Transport and associated appeals will continue to be heard by a three-person panel, comprising senior officers, chaired by the Service Director: Children's and Families. Grievances will be heard in accordance with the current procedure and the final step will be heard by Service Lead, Service Director or CMT member as appropriate.
<u>Scheme of Delegation to Officers</u>	
6.	This has been updated to reflect revised job titles and other minor matters, remove duplication and to include delegations required to give effect to the working of the Joint Commissioning Board arrangements with the Clinical Commissioning Group and NHS England as previously approved by Cabinet, which has been operating in pilot form while arrangements bed in; there are no other substantive changes.
<u>Procedure Rules</u>	
7.	Minor changes have been included within Terms of Reference for the Executive and Executive Members, Executive Procedure Rules, Key Decision thresholds, Access To Information Procedure Rules etc in order to prepare for decision making and governance around the Council's proposed Latco and in order to move from pilot to final arrangements for the Joint Commissioning Board for Health.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
8.	None.

<u>Property/Other</u>	
9.	None.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
10.	The Executive Arrangements and Constitution are required under the Local Government Act 2000 (as amended) and the Localism Act 2011.
<u>Other Legal Implications:</u>	
11.	None.
RISK MANAGEMENT IMPLICATIONS	
12.	None
POLICY FRAMEWORK IMPLICATIONS	
13.	None.
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Draft revised Constitution – online only
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
Other Background Documents	
Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None

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DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		REVIEW OF THE CONSTITUTION – CRITERIA FOR CONFERRING ALDERMEN STATUS	
DATE OF DECISION:		23rd APRIL 2018	
REPORT OF:		SERVICE DIRECTOR: LEGAL & GOVERNANCE	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail:	Richard.ivory@southampton.gov.uk	
Director	Name:	Richard Ivory, Service Director: Legal and Governance	Tel: 023 8083 2794
	E-mail:	Richard.ivory@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
None			
BRIEF SUMMARY			
To consider adopting criteria for conferring the status of Honorary Alderman in the City			
RECOMMENDATIONS:			
	(i)	That Governance Committee considers this report and resolves to recommend to Council as appropriate	
REASONS FOR REPORT RECOMMENDATIONS			
1.	There is currently no adopted criteria for conferring the Honorary Alderman status in the City; proposals are left to discretion. In light of an increase in grants recently it is considered by Group Leaders that criteria may be appropriate to ensure equity.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	To leave the Constitution silent as at present		
DETAIL (Including consultation carried out)			
	Section 249 Local Government Act 1972 states		
3.	“A principal council, may confer the title of honorary aldermen on persons who have, in the opinion of the council, rendered eminent services to the council as past members of that council, but who are not then members of the council. No honorary alderman, while serving as a member of the council, is entitled to be addressed as alderman or to attend or take part in any civic ceremonies of the council as an alderman. An honorary alderman of a principal council may attend and take part in such civic ceremonies as the council may from time to time decide, but does not, as such have the right:		
	1.	To attend meeting of the council or a committee of the council (including a joint committee upon which it is represented), or	
	2.	To receive allowances or other payments.’	

4.	There is nothing in law that helps define “eminent service” so it is up to each authority to decide what suits best. Interestingly locally some, such as Winchester CC, Isle of Wight UA and New Forest DC, do not appoint out of convention. Fareham BC have appointed five or six Aldermen in the last two years as several very long standing members (15 years +) have retired.	
5.	From a survey of others locally few have set criteria, it is left to judgement. However, Havant BC has the most prescriptive as below:	
	1.	any former Councillor considered for appointment to the Aldermanic Bench must have served for a minimum of eight years;
	2.	subject to (1) above, any former Councillor nominated must have given outstanding service to the Council over and above a Councillor's normal duties; (which normal duties are defined in the Council's Constitution at Article 2.3 (a)). In particular they must have:
	a.	been a Chairman for at least two years of a principal member-level body, that being of the Cabinet, the Overview and Scrutiny Board, the Regulatory Committees, and other such Committees established from time to time; or
	b.	a member of the Cabinet for at least three years; or
	c.	Mayor of the Borough; and/or
	d.	given other outstanding service to the Borough.
6.	There is no obligation or requirement to set criteria but those adopted by Havant do not seem unreasonable for members to consider as a starting point.	
7.	Appendix 1 is a list of the current list Honorary Aldermen and when they were appointed.	
RESOURCE IMPLICATIONS		
<u>Capital/Revenue</u>		
8.	None	
<u>Property/Other</u>		
9.	None.	
LEGAL IMPLICATIONS		
<u>Statutory power to undertake proposals in the report:</u>		
10.	S.249 Local Government Act 1972	
<u>Other Legal Implications:</u>		
11.	None	
RISK MANAGEMENT IMPLICATIONS		
12.	None.	
POLICY FRAMEWORK IMPLICATIONS		
13.	None.	

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	List of current Aldermen
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
Other Background Documents	
Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None

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List of Honorary Alderman

Name	Date
Alderman Kathy Johnson (dec'd)	1974
Alderman Irene Candy (dec'd)	1986
Alderman Norman Best (dec'd)	1994
Alderman Dorothy Brown (dec'd)	2001
Alderman Ivy White (dec'd)	2001
Alderman Margaret Singerman	2001
Alderman Mary Key (dec'd)	2001
Alderman Pat Allan	2001
Alderman Richard Bates	2001
Alderman Peter Wakeford	2007
Alderman Alec Samuels	2011
Alderman Jill Baston	2011
Alderman Parvin Damani MBE	2011
Alderman Dennis Harryman	2013
Alderman Edwina Cooke	2013
Alderman Liz Mizon	2013
Alderman Carol Cunio	2014
Alderman Gerry Drake	2014
Alderman Adrian Vinson	2015
Alderman Peter Baillie (retired at present)	2015
Alderman Linda Norris	2017
Alderman David Beckett	2017

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Agenda Item 7

DECISION-MAKER:		Governance Committee Council	
SUBJECT:		Local Authority Trading Company (LATCO) – Amendments to Key Decision Thresholds At Company Board Meetings	
DATE OF DECISION:		23rd April 2018 16th May 2018	
REPORT OF:		Service Director: Legal & Governance	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Sarita Riley, Service Lead: Legal Services Partnership	Tel: 023 8083 3218
	E-mail:	sarita.riley@southampton.gov.uk	
Director	Name:	Richard Ivory, Service Director: Legal & Governance	Tel: 023 8083 2794
	E-mail:	richard.ivory@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
<p>This report sets out the revisions proposed to the Council’s Articles of the Constitution (article 12.03 – definition of ‘Key Decision’) and the subsequent implications this has for the interpretation and implementation of the Access to Information Procedure Rules / Finance Procedure Rules as set out in the Constitution. Should Council agree to proceed with the LATCO these changes are required to enable the LATCO Board to operate on the same decision making basis as any other private company (subject to operational and strategic safeguard approved by Council in establishing the governance arrangements for the Company) while maintaining a Council overview of Governance arrangements.</p>			
<p>The proposal is to remove the decisions of SCC appointed representatives exercising their decision making at the LATCO Board from the definition of a Key Decision in order to enable those Board Members / shareholder representatives (Officers and elected Members) to take decisions at Board / shareholder meetings without the need to register those decisions in advance on the Forward Plan / prepare reports which would fetter the Board and Shareholder’s meetings from being able to operate in accordance with the regulation of company meetings under normal companies law principles.</p>			
<p>This will enable the LATCO Board and Shareholder to respond quickly and effectively to operational demand and market opportunity as it presents in common with its private sector competitors.</p>			
RECOMMENDATIONS:			
	(i)	That Governance Committee endorses the changes to the ‘Key Decision’ threshold as it applies to Council appointed representatives (Officers and Members) exercising decisions as Directors and	

		shareholders of the LATCO at Board and Shareholder meetings and in relation to LATCO company decision making in accordance with the Articles of the Company as set out in appendix 1.
	(ii)	That Council resolves to revise the Council's Constitution accordingly.

REASONS FOR REPORT RECOMMENDATIONS

1.	To enable the LATCO to comply with decision making arrangements for companies as set out in its Articles of Association and Governance documents (subject to approval of Council) and to ensure decision making at Board level is efficient and effective to enable the company to operate in the same manner as a private sector commercial company in terms of speed and efficiency of decision making and adapting to market opportunity.
2.	Safeguards relating to Council oversight of decision making at Board and Shareholder level are built into the governance arrangements for the company. The proposals enable the Council to take decisions at the LATCO Board in a manner that matches private company and companies law decision making principles, without which Officers and Members representing the Council on the Board / at the shareholder meetings would be fettered in making timely operational and commercial decisions.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3.	Retaining and applying current Key Decision thresholds to all officer and Member representative decisions at LATCO Board / Shareholder Meetings.
4.	This option has been rejected as it would significantly hamper the company being able to take decisions quickly to meet the demands to operate commercially and react swiftly to market opportunity as it presents which is one of the strategic aims of establishing a LATCO to deliver services with a commercial focus.

DETAIL (Including consultation carried out)

5.	Article 12.03 of the Constitution sets out the current Key Decision threshold which applies to all Executive decision making by the Council. Key Decisions are those which result in the Council incurring significant expenditure or savings or have a significant strategic effect on specified wards or communities.
6.	The law allows the Council to set its own definition of what constitutes 'significant' for the purposes of setting a 'Key Decision' threshold. The current threshold is set having regard to prudent financial decision making levels, public accountability and transparency principles and benchmarked against other local authority good practice. The current level is set at decisions over £500,000.
7.	The 'Key Decision' threshold does not limit the ability to take decisions over this sum but rather implements a requirement to give 28 days advance notice of such decisions taking place and requires decision makers to take a decision based on a published report which is then subject to the potential for call-in and scrutiny of decisions post any decision meeting.
8.	While good law and practice in local authority public meetings, this lengthy and complicated decision making process is incompatible with the decision making requirements for companies set out in the Companies Act 2006.

	Separate requirements relating to the role and duties of Company Directors, Shareholder Representatives, agendas and minutes for Board and Shareholder meetings exist for such entities which give greater freedom for speed of decision making that in a public body decision making setting.
9.	In order to ensure that Local Authority representatives on the trading company (both Officers and Members) are able to operate effectively and quickly at Board and Shareholder meetings and in accordance with the Company Articles and governance structure due to be considered by Council in May 2018, it will be necessary to amend the Key Decision definition in the Constitution to remove LATCO Board and Shareholder representative decisions from the Key Decision definition to enable those individuals to act at Board and shareholder meeting under Companies Act 2006 principles.
10.	Precedent has already been set for removing the restriction in certain limited circumstances and these are set out in Appendix 1 (certain social care, transformation and property acquisition strategy related decisions). All of which reflect the need for speedier and more flexible decision making in certain limited circumstances and where market or operational demand would be unreasonable fettered if normal decision making thresholds were maintained.
11.	The LATCO governance structures place clear limits and restrictions on the decision making ability of Board Members and Shareholder Representatives (which include reference to Cabinet / Council / Service Director, Finance and Commercialisation where decisions have a significant impact on Council funding and services) and provide appropriate safeguards that allow the relaxation of the Key Decision threshold to speed operational decision making to allow the company to compete with its private sector rivals.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
12.	N/A
<u>Property/Other</u>	
13.	N/A
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
14.	The Local Government Act 2000 and the Local Authorities (Executive Arrangements) (Access to Information) (Amendment) (England) Regulations 2006 require Councils to set a Key Decision threshold as set out above. Councils have a discretion as to the level at which they determine decisions to be 'significant' in terms of financial savings / spend / impact on wards etc. and this may differ depending on the type of decision being undertaken. The Council has adopted a single definition for the majority of decisions applying across the Council but has previously set a precedent for the relaxation of these thresholds where justified such as those relating to strategic transformation projects, care services and property acquisition decisions where the market requires quick responses to market opportunity and safeguarding matters etc. The proposals in this report are consistent with the legal discretions afforded the Council in this regard.

<u>Other Legal Implications:</u>	
15.	N/A
RISK MANAGEMENT IMPLICATIONS	
16.	The proposals in the report are consistent with the approved governance arrangements for the LATCO operation to date and sufficient safeguards and risk mitigation is included within the governance proposals for the operation of the LATCO (which are subject to the oversight and approval of the Council) to determine that this proposal is risk neutral in the circumstances. Failure to approve the change would render the company unable to operate on the same commercial and market basis as the private companies with which it is required to compete and would be inconsistent with the requirements of Companies law which regulate the decision making processes of companies, including Local Authority Trading Companies.
POLICY FRAMEWORK IMPLICATIONS	
17.	The proposals in the report are wholly consistent with the Council's approved policy framework.
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Proposed Amendment to Article 12.03 of the Constitution.
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
Other Background Documents	
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.	None

Part 2: Articles of the Constitution (Article 12.03)

12.03 Types of decision

- a. Decisions reserved to full Council
Decisions relating to the functions listed in [Article 4.02](#) will be made by the Full Council and not delegated.
- b. Key decisions
In this Constitution, a “Key Decision” shall mean an Executive decision which is likely:
 - i. to result in the local authority incurring expenditure which is, or the making of savings which are, significant having regard to the City Council’s budget for the service or function to which the decision relates;
 - ii. to be significant in policy or strategic terms as regards its effects on communities living or working in an area comprising two or more wards or electoral divisions in the City; or
 - iii. to have a particularly significant impact on any community as experiencing social exclusion or discrimination, whether that community is defined by geography or interest and even if that community is only located in one ward or electoral division in the area of the local authority.

Notes

1. *In relation to paragraph (i) above, the term “significant” shall be construed as meaning £500,000 (except that this does not apply to (i) care packages where the value of the care package exceeds £500,000. For the purposes of this paragraph, the term “care package” is defined as a package of personal care, support or education purchased as a consequence of an assessment of a child’s needs within the Children Act 1989, Children (Leaving Care) Act 2000 and the Education Act 1981 and the relevant guidance is contained in the Special Education Needs Revised Code of Practice. The decision to provide the care package is for the duration of the individual’s childhood, up to the age of 18 years, 19 years or 21 years according to the relevant legislation or guidance (ii) proposals and decisions under the Property Acquisition Strategy of whatever value) (iii) **proposals and decisions of Council appointed representatives (officer and elected member) acting in their capacity as Board Members or Shareholder Representatives as individual decision makers or as part of decision making Boards or meetings of a Local Authority Trading Company owned or operated by Southampton City Council.***
2. *In relation to paragraph (ii) above, the Council will, unless it is impracticable to do so, treat as if they were Key any decisions which are likely to have a significant impact on communities in one ward or electoral division. Where a decision is only likely to have a significant impact on a very small number of people in one ward or electoral division, the decision-maker should ensure that those people are nevertheless informed of the forthcoming decision in sufficient time for them to exercise their right to see the relevant papers and make an input into the decision-making process.*
3. *In considering whether a decision is likely to be significant, a decision-maker will also need to consider the strategic nature of the decision and*

whether the outcome will have an impact, for better or worse, on the amenity of the community or quality of service provided by the authority to a significant number or people living or working the locality affected. Regard should again be given to the underlying principles of open, transparent and accountable decision-making of this Constitution to ensure that there is a presumption towards openness.

4. *In interpreting after the event whether or not a decision should or should not have been classified as a Key Decision, the following will be taken into account:*
 - a. *the issue must be assessed on the basis of the information which could reasonably have been available to the decision-maker at the time;*
 - b. *the “de minimus” rule will be applied;*
 - c. *the level and nature of advice sought by the decision-maker. The Monitoring Officer and Chief Financial Officer will have significant roles to play in this.*
- c. A decision-taker may only make a Key Decision in accordance with the requirement of the [Executive Procedure Rules](#) set out in Part 4 of this Constitution.
- d. No treasury management decisions, as defined by the Service Director: Finance & Commercialisation, shall be deemed to be Key Decisions.

Note: “De minimus” means that (in this context) this rule does not apply to trifling, minor or insignificant variations, departures or breaches.

Agenda Item 8

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		CODE OF CORPORATE GOVERNANCE – ANNUAL REVIEW	
DATE OF DECISION:		23RD APRIL 2018	
REPORT OF:		SERVICE DIRECTOR: LEGAL & GOVERNANCE	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail:	Richard.ivory@southampton.gov.uk	
Director	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail:	Richard.ivory@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
None			
BRIEF SUMMARY			
The Code of Corporate Governance sets out the commitment of Southampton City Council to continue to uphold the highest possible standards of good governance. The intention is that the Service Director: Legal & Governance continues with the “light touch” annual review unless required.			
RECOMMENDATIONS:			
	(i)	To note and approve the updated draft 2018 Code of Corporate Governance (“CCG”) attached at Appendix 1.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	The Governance Committee has responsibility for leading on all aspects of Corporate Governance by promoting the values of putting people first, valuing public service and creating a norm of the highest standards of personal and professional conduct. A core document supporting this is the annual CCG.		
2.	One of the key actions arising from the 2011-12 Annual Governance Statement was a recognition that "A biennial review is no longer considered appropriate in terms of being able to reflect significant changes in legalisation that potentially impact on the CCG. The CCG will therefore to be subject to an annual ‘light touch’ review as part of the review of the Constitution".		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
3.	No alternative options have been considered as this is a core governance requirement.		
DETAIL (Including consultation carried out)			
4.	Corporate Governance is 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: Delivering Good Governance in Local Government - Framework (CIPFA, 2007)	
5.	The CCG is based around core principles contained in recently updated 'Delivering Good Governance in Local Government (2016)' guidance. This document provides guidance on producing the local code of corporate governance, the Annual Governance Statement, as well as the process of undertaking the review of governance. The CCG has been updated to reflect current arrangements.	
6.	The minimally revised CCG reflects the current best practice guidance.	
RESOURCE IMPLICATIONS		
<u>Capital/Revenue</u>		
7.	None.	
<u>Property/Other</u>		
8.	None.	
LEGAL IMPLICATIONS		
<u>Statutory power to undertake proposals in the report:</u>		
9.	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.	
<u>Other Legal Implications:</u>		
10.	None.	
RISK MANAGEMENT IMPLICATIONS		
11.	None.	
POLICY FRAMEWORK IMPLICATIONS		
12.	None.	
KEY DECISION		No
WARDS/COMMUNITIES AFFECTED:		None
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	2018 draft Code of Corporate Governance	
Documents In Members' Rooms		
1.	None	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		No
Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		No

Other Background Documents	
Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None

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CODE OF CORPORATE GOVERNANCE

INTRODUCTION

Corporate governance comprises the systems, processes, values and cultures by which councils are directed and controlled and through which they are accountable to and engage with and, where appropriate, lead their communities.

To demonstrate compliance with the principles of good corporate governance, Southampton City Council must ensure that it does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing risk.

GOOD CORPORATE GOVERNANCE

Southampton City Council has a robust Constitution and associated governance documents and arrangements in place. Together, they demonstrate that the Council is committed to ensuring that a robust governance framework is in place and one that reflects the core principles of good corporate governance identified in the CIPFA / SOLACE framework '*Delivering Good Governance in Local Government*'. This Code of Corporate Governance is based on this framework and reflects 7 core principles:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The purpose of this Code of Corporate Governance is to provide a simple document with, where appropriate, hyperlinks (where the text is underlined) to key documents relating to governance which are available free of charge on the Council's website.

Core Principle A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

Sub Principles	Evidenced by
<ul style="list-style-type: none"> • Behaving with integrity • Demonstrating strong commitment to ethical values • Respecting the rule of law 	<ul style="list-style-type: none"> • <u>Council Constitution</u> - (Part 3) Governance Committee Terms of Reference • <u>Council Constitution</u> (Part 4) – Financial Procedure Rules • <u>Council Constitution</u> (Part 4) – Contract Procedure Rules • <u>Council Constitution</u> (Part 4) – Overview and Scrutiny Procedure Rules • <u>Council Constitution</u> (Part 4) – Executive Procedure Rules • <u>Council Constitution</u> - (Part 5) – Monitoring Officer Protocol • <u>Council Constitution</u> (Part 5) - Members' Code of Conduct including Register of Interests • <u>Council Constitution</u> (Part 5) Officers Code of Conduct • <u>Council Constitution</u> (Part 5) – Officer Member Protocol • <u>Council Constitution</u> (Part 10) – Officer Scheme of Delegation • <u>How decisions are made - information</u> • <u>Whistleblowing - Duty to Act Policy</u> • <u>Comments, complaints and compliments process</u> • Officer Code of Conduct including register of Gifts and Hospitality • Regulation of Investigatory Powers Act 2000 Corporate Surveillance Guidance • <u>Anti-Fraud & Anti-Corruption Policy</u>

Core Principle B. Ensuring openness and comprehensive stakeholder engagement

Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

Sub Principles	Evidenced by
<ul style="list-style-type: none"> • Openness • Engaging comprehensively with institutional stakeholders • Engaging stakeholders effectively, including individual citizens and service users 	<ul style="list-style-type: none"> • Transparency and Publication of Data • How decisions are made - information • Council Performance data • Budget Consultation Process • 'Have your say' - webpage (e-petitions, consultations and People's Panel) • Comments, complaints and compliments process • Freedom of Information and Publication Scheme • Council Constitution (Part 4) – Overview and Scrutiny Procedure Rules • Your Council's Commitments • Southampton Speak Up – Children and Young Peoples Participation Strategy • People's Panel
<p>Core Principle C. Defining outcomes in terms of sustainable economic, social, and environmental benefits</p>	
<p>The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.</p>	
Sub Principles	Evidenced by
<ul style="list-style-type: none"> • Defining outcomes • Sustainable economic, social and environmental benefits 	<ul style="list-style-type: none"> • Southampton City Strategy 2015-25 • Southampton City Council Strategy 2016-20 • Local Development Plan • Housing Strategy • Customer Strategy 2018-22 • Medium Term Financial Strategy • Southampton City Council - Budget Book • Statement of Accounts • Local Transport Plan • Clean Air Strategy 2016-2025
<p>Core Principle D. Determining the interventions necessary to optimise the achievement of the intended outcomes</p>	
<p>Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.</p>	

Sub Principles	Evidenced by
<ul style="list-style-type: none"> • Determining interventions • Planning interventions • Optimising achievement of intended outcomes 	<ul style="list-style-type: none"> • <u>Council Constitution</u> (Part 2) – Decision Making • <u>Council Constitution</u> (Part 3) – Responsibility for Functions: Terms of Reference – Overview & Scrutiny • <u>Council Constitution</u> (Part 4) – Overview Scrutiny Procedure Rules • <u>Council Performance data</u> • Customer Strategy 2018-22 • <u>Southampton City Strategy 2017-20</u> • <u>Southampton City Council Strategy 2016-20</u> • <u>Southampton City Council Strategy Targets</u> • <u>Council Constitution</u> (Part 5) Partnership Code • <u>Joint Strategic Needs Assessment</u> • <u>Community Safety Strategic Needs Assessment</u>
<p>Core Principle E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it</p>	
<p>Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.</p>	
Sub Principles	Evidenced by
<ul style="list-style-type: none"> • Developing the entity’s capacity • Developing the capability of the entity’s leadership and other individuals 	<ul style="list-style-type: none"> • <u>Workforce Development Strategy</u> • Equality Policy and Action Plan • Member User Group • Councillor Personal Development Plan • Manager Toolkit • Learning & Development training • Performance Management Contracts • Probation and appointment support policy • Induction Checklist

Core Principle F. Managing risks and performance through robust internal control and strong public financial management

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.

It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

Sub Principles	Evidenced by
<ul style="list-style-type: none"> • Managing risk • Managing performance • Robust internal control • Managing data • Strong public financial management 	<ul style="list-style-type: none"> • Risk Management Policy • Strategic Risk Register • <u>Council Constitution</u> - (Part 3) Governance Committee Terms of Reference • <u>Local Flood Risk Management Strategy</u> • Annual Audit Letter • Internal Audit Charter • Annual Internal Audit Plan • Information Governance & Risk Policy • <u>Data Protection Policy</u> • <u>Council Constitution</u> (Part 4) – Financial Procedure Rules • <u>Council Constitution</u> (Part 4) – Budget Policy Framework Procedure Rules • <u>Council Constitution</u> (Part 4) – Contract Procedure Rules • <u>Council Constitution</u> (Part 4) – Overview and Scrutiny Procedure Rules • <u>Medium Term Financial Strategy</u> • Annual Governance Statement (Part of the Statement of Accounts)

Core Principle G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

Sub Principles	Evidenced by
<ul style="list-style-type: none"> • Implementing good practice in transparency • Implementing good practices in reporting • Assurance and effective Accountability 	<ul style="list-style-type: none"> • <u>Transparency and Publication of Data</u> • <u>'Have your say' - webpage (e-petitions, consultations and People's Panel)</u> • Budget Consultation Process • <u>Council Performance data</u> • Customer Strategy 2018-22 • <u>Annual Audit Letter</u> • Internal Audit Charter • Annual Internal Audit Plan • <u>Council Constitution</u> (Part 4) – Overview and Scrutiny Procedure Rules

MONITORING AND REVIEW

The Council will monitor the arrangements set out in this Code of Corporate Governance for their effectiveness in practice and will review them on a continuing basis to ensure that they are up to date.

Each year the Council will publish an Annual Governance Statement which will explain and assess how the Council has complied with this Code of Corporate Governance and provide details of how continual improvement in the system of internal control will be achieved.

The Governance Committee has responsibility at Member level and the Monitoring Officer has responsibility at officer level for reviewing the corporate governance arrangements set out in this Code of Corporate Governance. Further, the Governance Committee generally considers all processes for risk, control and governance and provides independent, effective assurance about the adequacy of the Council's governance environment and is responsible for promoting and maintaining high standards of probity and conduct of Members and co-opted members.

February 2018

Agenda Item 9

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		ANNUAL INTERNAL AUDIT PLAN 2018-19	
DATE OF DECISION:		23rd APRIL 2018	
REPORT OF:		CHIEF INTERNAL AUDITOR	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Elizabeth Goodwin	Tel: 023 8083 4616
	E-mail:	Elizabeth.Goodwin@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 8083 4897
	E-mail:	Mel.Creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
<p>On an annual basis the Chief Internal Auditor is required to produce an Annual Plan that translates into a schedule of audit assignments. The plan defines the areas and potential scope inclusion and must provide a sufficient review of the Authority's functions in order to form an annual opinion on the effectiveness of the control framework. The plan must be proportionate to the risk exposure and appropriately aligned to the strategic objectives of the Council.</p> <p>With effect from 1st April 2017 the internal audit & counter fraud function has been delivered in collaboration with Portsmouth City Council (PCC) under the direction and control of the shared Chief Internal Auditor (the Chief Internal Auditor for PCC). The 2018-19 Annual Audit Plan reviewed quarterly and if required represented to this committee.</p>			
RECOMMENDATIONS:			
	(i)	That the Governance Committee approves the provisional Annual Internal Audit Plan for 2018-19 as attached.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	In accordance with internal audit practices and protocol, the Governance Committee is required to approve, but not direct the annual audit plan for Internal Audit & Counter Fraud.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None		
DETAIL (Including consultation carried out)			
3.	The provisional Internal Audit Plan for 2018-19 has been discussed with individual members of the Council's Management Team.		
RESOURCE IMPLICATIONS			
<u>Capital/Revenue</u>			
4.	None		
<u>Property/Other</u>			
5.	None		

LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
6.	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
Other Legal Implications:	
7.	None
RISK MANAGEMENT IMPLICATIONS	
8.	Failure to maintain an effective internal audit functions would result in a failure of the organisation meeting its statutory responsibilities in relation to the Annual Governance Statement and Annual Audit Opinion.
POLICY FRAMEWORK IMPLICATIONS	
9.	None
KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Annual Internal Audit Plan 2018-19
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
Other Background Documents	
Other Background documents available for inspection at: Internal Audit Office, Civic Centre, Municipal, 1st floor, Rm 219.	
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.	Audit Universe

Annual Internal Audit Plan 2018/19

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Land Charges	Strategy (SD Legal & Governance)	1, 2,8	1	Scope to include a review of key operational controls.
Annual Gov Statement	Strategy (SD Legal & Governance & SD Finance & Commercialisation)	1,6	1	Review of a sample of the self-assessments returns across the Council.
Social Media Surveillance	Strategy (SD Legal & Governance)	1,6	1	Follow up on progress to implement agreed actions.
Solicitors fees and court costs	Strategy (SD Legal & Governance)	1,2,8	1	Scope to include a review of expenditure incurred under external costs.
Ethics	Strategy (SD Legal & Governance & SD HR & Organisational Development)	1,6	1,4	Scope to include declarations of interest, code of conduct and gifts & hospitality.
Learning & Development	Strategy (SD HR & Organisational Development)	1,2,6,11	1,4	Scope to include a review of learning & development procured from external parties.
Apprenticeships	Strategy (SD HR & Organisational Development)	1,2,8	1,4	Scope to include a review of the apprenticeship levy and use of.
Agency / Temps	Strategy (SD HR & Organisational Development)	1,2,8	1,4	Scope to include a review of agencies and temps appointed off contract.
Health and Safety	Strategy (SD HR & Organisational Development)	5	3	Follow up on progress to implement agreed actions.
Recruitment and Retention	Strategy (SD HR & Organisational Development)	1,2,8,11	1,4	Scope to include a review of the processes post transfer to in house arrangements.
Expenses Travel & Subsistence	Strategy (SD HR & Organisational Development)	1,6	1,4	Follow up on progress to implement agreed actions.
Payroll	Strategy (SD HR & Organisational Development)	1,6	1,4	Scope to include a review of overpayments and root cause analysis.

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Commercial Contract Compliance	Operational (SD Digital & Business Operations)	1,2	1	Scope of the review to include contractor compliance with ethical standards.
Debt Management Accounts Receivable	Operational (SD Digital & Business Operations)	1,2,6	1	Scope to include a review of key operational controls and data analytics.
Accounts Payable	Operational (SD Digital & Business Operations)	1,2,6	1	Scope to include a review of key operational controls and data analytics.
Telecommunications	Operational (SD Digital & Business Operations)	2,11	1	Follow up on progress to implement agreed actions.
IT Application & Operating Systems	Operational (SD Digital & Business Operations)	2,11	1	Scope to include a review of key operational controls.
Strategic Contract Management	Operational (SD Digital & Business Operations)	1,2	1	Follow up on progress to implement agreed actions.
Procurement	Operational (SD Digital & Business Operations)	1,2	1	Follow up on progress to implement agreed actions.
Leisure contract	Operational (SD Digital & Business Operations)	1,2,8	1,3,4	Follow up on progress to implement agreed actions.
Data Management	Operational (SD Digital & Business Operations)	2,11	1	Scope to include a review of key operational controls.
License Man IT	Operational (SD Digital & Business Operations)	2,11	1	Scope to include a review of key operational controls.
IT procure and disposal	Operational (SD Digital & Business Operations)	2,11	1	Scope to include a review of key operational controls.
Mobile devices	Operational (SD Digital & Business Operations)	2,11	1	Follow up on progress to implement agreed actions.
Email and Internet Security	Operational (SD Digital & Business Operations)	2,11	1	Follow up on progress to implement agreed actions.

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Back up and DR	Operational (SD Digital & Business Operations)	2,11	1	Follow up on progress to implement agreed actions.
Access Controls	Operational (SD Digital & Business Operations)	2,11	1	Scope to include a review of key operational controls.
Developing Business plans	Strategy (SD Intelligence & Business Insight)	all	all	Scope of the review to include embedding of new business planning process.
Events	Strategy (SD Intelligence & Business Insight)	1,5,6	1,3,4	Scope to include a review of key operational controls for example, health & safety, regulatory checks, liaison with multiple agencies etc.
Website Project Development	Strategy (SD Intelligence & Business Insight)	1,2,6,8	1,3,4	Project review.
Asset Management	Operational (SD Growth)	1,2,5	all	Scope of the review to include asset valuation and rent income.
Project Modular Housing	Operational (SD Growth)	1,8	1,3,4	Project review.
Stock Condition	Operational (SD Growth)	1,8	1,3,4	Scope to include survey and assessments of stock and remedial action taken.
Planning	Operational (SD Growth)	2	1	Scope to include service performance and enforcement action.
Community Infrastructure Levy	Operational (SD Growth)	1	1,4	Scope to include a review of the policy for use of CIL in relation to road infrastructure.
Regeneration Projects	Operational (SD Growth)	1	all	Scope to include a review of projects proposed and underway.
Building Control	Operational (SD Growth)	2	1	Scope to include a review of key controls.
Tower Blocks	Operational (SD Growth)	5	3,4	Follow up on progress to implement agreed actions.

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Water Quality	Operational (SD Growth)	5	3,4	Scope to include a review of key controls and a follow up on previous issues raised.
CCTV	Operational (SD Growth)	5,6	3	Follow up on progress to implement agreed actions.
Safeguarding Adults	Operational (SD Adults Housing & Communities)	3,9	3	Follow up on progress to implement agreed actions.
Right to Buy	Operational (SD Adults Housing & Communities)	1	1,3	Scope to include a review of counter fraud arrangements in place.
Supported Housing Scheme	Operational (SD Adults Housing & Communities)	3,9	3,4	Follow up on progress to implement agreed actions.
Housing Depot	Operational (SD Adults Housing & Communities)	2	4	Scope to include a review of the key controls in operation.
Income Housing Rents	Operational (SD Adults Housing & Communities)	1,2	3,4	Scope to include a review of the key controls in operation.
Leaseholder Charges	Operational (SD Adults Housing & Communities)	1,2	3,4	Scope to include a review of the key controls in operation.
Appointeeships	Operational (SD Adults Housing & Communities)	3,9	3	Scope to include a review of key controls and a follow up on previous issues raised.
Homelessness and Prevention	Operational (SD Adults Housing & Communities)	3,9	3,4	Scope to include a review of key controls and implementation of any changes following legislative changes.
British Gas Contract	Operational (SD Adults Housing & Communities)	1,2	3	Follow up on progress to implement agreed actions.
Continuing Healthcare	Operational (SD Adults Housing & Communities)	3,9	3	Follow up on progress to implement agreed actions.

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Direct Payments	Operational (SD Adults Housing & Communities)	1,3,9	3	Scope to include a review of the end to end process.
DOLS	Operational (SD Adults Housing & Communities)	3,9	3	Follow up on progress to implement agreed actions.
Residential Units	Operational (SD Adults Housing & Communities)	3,9	3	Follow up on progress to implement agreed actions.
Fostering	Operational (SD Children and Families)	4,10	2	Follow up on progress to implement agreed actions.
Independent Fostering Agreements	Operational (SD Children and Families)	4,10	2	Scope to include a review of key controls.
Adoption	Operational (SD Children and Families)	4,10	2	Follow up on progress to implement agreed actions.
Child Sexual Exploitation & Missing Persons	Operational (SD Children and Families)	4,10	2	Scope to include a review of key controls.
Short Breaks	Operational (SD Children and Families)	4,10	2	Scope of the review to include a review of the strategic direction of the service.
Looked After Children	Operational (SD Children and Families)	4,10	2	Scope to include a review of the financial monitoring and value for money attainment.
Children in Need	Operational (SD Children and Families)	4,10	2	Scope to include a review of key controls.
Direct Payments Children's	Operational (SD Children and Families)	4,10	2	Scope to include a review of key controls.
Care Leavers	Operational (SD Children and Families)	4,10	2	Scope to include a review of key controls.

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Children's Safeguarding (PACT)	Operational (SD Children and Families)	4,10	2	Follow up on progress to implement agreed actions.
Home to School Transport	Operational (SD Children and Families)	4,10	2	Follow up on progress to implement agreed actions.
Early Years education 2-8	Operational (SD Children and Families)	4,10	2	Scope to include a review of key controls.
Admissions & Exclusions	Operational (SD Children and Families)	4,10	2	Scope to include a review of key controls.
MARP Multi Agency Resource Panel	Operational (SD Children and Families)	4,10	2	Scope to include a review of key controls.
Pupil Referral Unit	Operational (SD Children and Families)	4,10	2	Scope to include a review of key controls.
SEND including Out of City	Operational (SD Children and Families)	4,10	2	Follow up on progress to implement agreed actions.
Schools	Operational (SD Children and Families)	4,10	2	Scope to include a review of key controls.
Families Matters Grant	Operational (SD Children and Families)	4,10	2	Grant Certification.
Community Funerals	Operational (SD Transactional & Universal)	1,7	3,4	Scope to include a review of key controls.
Tranman	Operational (SD Transactional & Universal)	2,5	3	Follow up on progress to implement agreed actions.
Licensing	Operational (SD Transactional & Universal)	1,2,5	3	Scope to include a review of key controls.
HMO Licensing	Operational (SD Transactional & Universal)	1,2,5	3	Scope to include a review of key controls.

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Pest Control	Operational (SD Transactional & Universal)	5	2,3	Scope to include a review of key controls.
Asbestos	Operational (SD Transactional & Universal)	5	2,3	Scope to include a review of key controls and progress made to implement previously identified issues.
Disabled Facilities	Operational (SD Transactional & Universal)	9,10	2,3	Scope to include a review of the system in place for the award and assessment of DFG and any verification checks.
Partnerships	Strategy (SD Finance & Commercialisation)	1,2,8	all	Follow up on progress to implement agreed actions.
Project Governance	Strategy (SD Finance & Commercialisation)	1,2,11	all	Follow up on progress to implement agreed actions.
Accounts Receivable	Strategy (SD Finance & Commercialisation)	1,6	1,4	Scope to include a review of key controls and progress made to implement previously identified issues.
PUSH	Strategy (SD Finance & Commercialisation)	1,2	1	Grant Certification.
Treasury Management	Strategy (SD Finance & Commercialisation)	1,6	1	Scope to include a review of key controls and progress made to implement previously identified issues.
Accounts Payable	Strategy (SD Finance & Commercialisation)	1,6	1	Scope to include a review of key controls and progress made to implement previously identified issues.
Purchasing Cards	Strategy (SD Finance & Commercialisation)	1,6,7	1	Follow up on progress to implement agreed actions.
Petty Cash	Strategy (SD Finance & Commercialisation)	1,6,7	1	Scope of review to include a review of key controls.

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Council Tax	Strategy (SD Finance & Commercialisation)	1,2,6	1	Scope to include a review of key controls and progress made to implement previously identified issues.
NNDR	Strategy (SD Finance & Commercialisation)	1,2,6	1	Scope to include a review of key controls and progress made to implement previously identified issues.
Bank Account	Strategy (SD Finance & Commercialisation)	1,2,6	1	Follow up on progress to implement agreed actions.
Housing Benefit	Strategy (SD Finance & Commercialisation)	1,2,6,7	3	Scope to include a review of key controls and progress made to implement previously identified issues.
Housing Rents and Debt	Strategy (SD Finance & Commercialisation)	1,2,6,7	3	Scope to include a review of key controls and progress made to implement previously identified issues.
Business Support	Operational (SD Finance & Commercialisation)	2	1	Scope to include a review of the effectiveness of operations.
Income Collection	Strategy (SD Finance & Commercialisation)	1,2,8,11	1	Follow up on progress to implement agreed actions.
School's Financial Values Statement	Strategy (SD Finance & Commercialisation)	1	2	Verification of the accuracy of the SFVS return for 2018.
Local Authority Bus Subsidy	Strategy (SD Finance & Commercialisation)	1,2	2,3,4	Grant Certification.
Disabled Facilities Grant	Strategy (SD Finance & Commercialisation)	9,10	2,3	Grant Certification.
GDPR Public Health	Strategy (SD Public Health)	6	4	Scope to include a review of the arrangements in place to ensure compliance with the change in legislation.
Sexual Health Contract	Strategy (SD Public Health)	3,9	3	Contract delivery review.

Audit	Audit Sponsor	Strategic Risk Registers	Corporate Outcome	Provisional Scope
Business Planning & Risk Management	Strategy (SD Public Health)	2	2,3,4	Scope to include a review of arrangements in place.
Health & Wellbeing Board	Strategy (SD Quality & Integration)	3,4,5,9,10	2,3	Governance review and advisory. Separate review on activities pre-transfer.
ICU Contract Management	Strategy (SD Quality & Integration)	3,4,9,10	2,3	Contract delivery, including monitoring and redress.
LATCo	Transformation	1,2,8,11	1,4	Governance review and advisory. Separate review on activities pre-transfer.
National Fraud Initiative (NFI)	All	-	-	-
Investigations	All	-	-	-
Advice	All	-	-	-

Strategic Risks

1. Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes.
2. Major incident or service disruption (including serious health protection threats) leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions.
3. Failure to safeguard vulnerable adults resulting in a preventable incident.
4. Failure to safeguard children resulting in a preventable incident.
5. Failure to meet our health and safety responsibilities.
6. Failure to ensure the City Council's information is held and protected in line with Information Governance policies and procedures.
7. The council is unable to respond appropriately or sufficient quickly to significant changes in service demand arising from changes in the welfare system.
8. Delivery of services via 'alternative service delivery models' fails to deliver the required outcomes in terms of sustainability and cost effectiveness.
9. Failure to ensure an effective and sustainable adult social care system.
10. Failure to ensure an effective and sustainable children's social care system.
11. The impact of organisational change and service redesign solutions, whilst delivering savings, create other unplanned for pressures and challenge.

Corporate Outcomes

1. Southampton is a city with strong and sustainable economic growth.
2. Children and young people in Southampton get a good start in life.
3. People in Southampton live safe, healthy, independent lives.
4. Southampton is a modern, attractive city where people are proud to live and work.

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DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		INTERNAL AUDIT PROGRESS REPORT 2017-18	
DATE OF DECISION:		23rd April 2018	
REPORT OF:		CHIEF INTERNAL AUDITOR	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Elizabeth Goodwin	Tel: 023 8083 4616
	E-mail:	Elizabeth.Goodwin@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 8083 4897
	E-mail:	Mel.Creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
<p>The Public Sector Internal Audit Standards 2017 (PSIAS), requires the Chief Internal Auditor (CIA) to provide periodical updates to the Governance Committee on:</p> <ul style="list-style-type: none"> • Progress made against the agreed annual audit plan. • Results of audit activities and • Management’s response to risk that in the CIA’s judgement maybe unacceptable to the Authority <p>All other PSIAS requirements are communicated in either the charter, strategy or annual audit opinion, which are reported separately to this committee at various times throughout the year.</p> <p>Internal Audit Progress for the period 26th January 2018 to the 6th April 2018 is covered in the attached Appendix 1.</p>			
RECOMMENDATIONS:			
	(i)	That the Governance Committee notes the Internal Audit Progress report for the period 26 th January 2018 to the 6 th April 2018.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an update on progress against the annual audit plan to the Governance Committee for information.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None		
DETAIL (Including consultation carried out)			
3.	None		
RESOURCE IMPLICATIONS			
<u>Capital/Revenue</u>			
4.	None		

<u>Property/Other</u>	
5.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
6.	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
<u>Other Legal Implications:</u>	
7.	None
RISK MANAGEMENT IMPLICATIONS	
8.	The report is for note only, there is no decision to be made.
POLICY FRAMEWORK IMPLICATIONS	
9.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Internal Audit Progress Report for the period 26 th January 2018 to the 6 th April 2018.
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
Other Background Documents	
Other Background documents available for inspection at:	
Title of Background Paper(s): None	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)



Internal Audit Progress Report

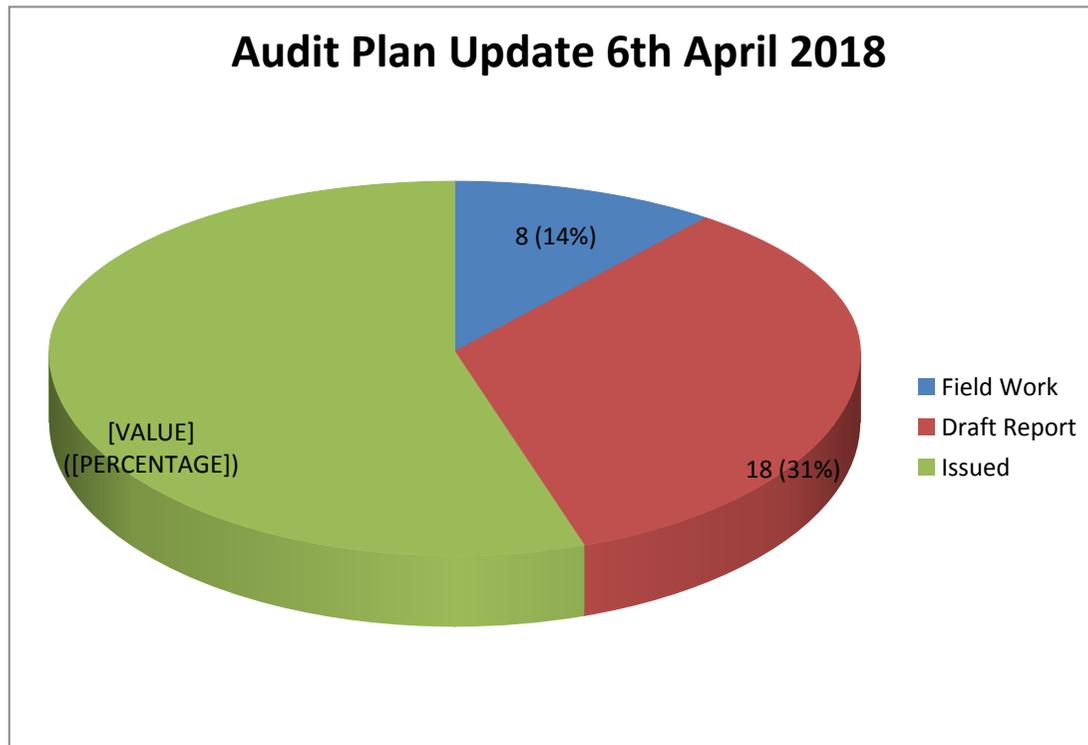
23rd April 2018 Governance Committee

Elizabeth Goodwin - Chief Internal Auditor

Introduction: The internal audit function is a statutory function for all Local Authorities. Southampton City Council currently has a shared Chief Internal Auditor and an in house team of three members of staff, supported under a partnership agreement with Portsmouth City Council.

Purpose of report: The purpose of this report is to update the committee on the progress of the 2017/18 Audit Plan for the period 26th January 2018 to 6th April 2018 and highlight any areas of concern that may have arisen during the completed audits. In addition, changes to the audit plan and other unplanned pieces of work are also brought to the attention of the committee.

Audit Plan Progress:



86% of the Audit Plan has been completed as at 6th April 2018. 14% of the Audit Plan is in progress with an expected completion date of the end of April 2018. This is based on 58 audits.

Completed Audits between 26th January 2018 and 6th April 2018:

Project Name	Hub	Opinion	Direction	No. Critical Risk	No. High Risk	No. Medium Risk	No. Low Risk	Summary
F&C - Housing Rents and Debt Management	Strategy	Limited Assurance	No previous audit	-	4	3	-	4 High risk exceptions arose. These relate to a lack of management information, circumvention of write off controls, lack of progression on former tenant debts and an error relating to collection of direct debits
F&C - Bank Account	Strategy	Limited Assurance	No previous audit	-	4	-	-	4 High risk exceptions arose. These relate to a lack of timely bank reconciliations, a lack of monitoring of suspense accounts, no clear procedures for undertaking reconciliations and insufficient separation of duties in relation to cash handling and reconciliation
F&C - Purchase Cards	Strategy	Limited Assurance	No previous audit	-	4	-	-	4 High risk exceptions arose. These relate to a lack of supporting evidence for purchases made, purchases being made by cardholders for other services, a lack of monthly reconciliations and authoriser monitoring. Lastly, card transaction limits were being exceeded in the sample tested.
C&F - Fostering Arrangements	Operations	Reasonable Assurance	No previous audit	-	1	2	-	1 high risk exception arose which related to a lack of clarity of the payment amounts to foster carers.
C&F - Home to School Transport	Operations	Limited Assurance	No previous audit	-	3	-	1	3 high risk exceptions arose. These related to policies being out of date and not fit for purpose. In addition, there was a lack of

Project Name	Hub	Opinion	Direction	No. Critical Risk	No. High Risk	No. Medium Risk	No. Low Risk	Summary
								sufficient evidence to justify a sample of transport decisions.
HR - Recruitment	Strategy	Reasonable Assurance	No previous audit	-	-	1	1	No high risk exceptions
HAC - DOLs Deprivation of Liberty	Operations	Limited Assurance	No previous audit	-	2	-	-	2 high risk exceptions arose. These related to the non-compliance with statutory timescales for processing new and reviewed DOLs cases.
COR - Project Governance	Strategy	Limited Assurance	No previous audit	-	-	-	-	Testing established that no corporate approach was in place relating to project governance. The agreed actions devised from the Studio 144 audit are being used to design a corporate project governance framework.
GRTH - Studio 144	Operations	No Assurance	No previous audit	-	5	-	-	See main body of the report
ICU - Quality Assurance	Strategy	Assurance	2015/16 Reasonable Assurance	-	-	-	-	No exceptions arose
F&C - Annual Governance Statement 17/18	Strategy	Reasonable Assurance	2017/18 Assurance	-	-	1	-	No high risk exceptions
GRTH - Property Investments	Operations	Assurance	No previous	-	-	-	-	No exceptions arose

Audits in Draft Report Stage:

Project Name	Hub	Project Status	Projected Reporting Date
DBO - CCTV	Operations	Draft Report	April 2018
DBO - Procurement	Strategy	Draft Report	April 2018
HR - Health & Safety	Strategy	Draft Report	April 2018
C&F - Adoption	Operations	Draft Report	April 2018
HAC - Adults Safeguarding	Operations	Draft Report	April 2018
F&C - Accounts Receivable and Debt Management	Strategy	Draft Report	April 2018
P&H - Public Health	Strategy	Draft Report	April 2018
L&G - Social Media	Strategy	Draft Report	April 2018
F&C - Accounts Payable	Strategy	Draft Report	April 2018
T&U - TranMan	Operations	Draft Report	April 2018
T&U - Water Quality	Operations	Draft Report	April 2018
T&U - Asbestos	Operations	Draft Report	April 2018
F&C - Income and Collection Sites	Strategy	Draft Report	April 2018
HAC - Residential Care Homes SCC run	Operations	Draft Report	April 2018
HAC - Continuing Health Care	Operations	Draft Report	April 2018
DBO - British Gas	Operations	Draft Report	April 2018
DBO - Contract Strategic Framework	Operations	Draft Report	April 2018
DBO - Leisure Contract	Operations	Draft Report	April 2018

Audits in progress:

Project Name	Hub	Project Status	Projected Reporting Date
F&C - Financial Management	Strategy	Field Work	April 2018
DBO - Partnership Arrangements	Operations	Field Work	April 2018
DBO - Mobile Devices	Operations	Field Work	April 2018
C&F - Out of City Placements Special Education Needs	Operations	Field Work	April 2018
C&F - Family Matters Grant	Operations	Field Work	April 2018
DBO - IT Telecommunications	Strategy	Field Work	April 2018
DBO - Disaster Recovery Business Continuity	Operations	Field Work	April 2018
C&F – Children’s Safeguarding (Protection & Court Teams)	Operations	Field Work	April 2018

Additional Audit Plan Information:

Three of the audits included in the 2017-18 audit plan resulted in consultative work being undertaken in place of an audit review, these areas are noted below for information.

Direct Payments: Following receipt of a 'No assurance' audit and service known concerns, Southampton City Council instigated a complete review of the DP process; this has included engagement with service users and support services under an intensive care assessment. Whilst progress has been made the new system is yet to be implemented with further work to be undertaken. An audit was scheduled to be undertaken in Q3/4 as the new system was anticipated to be in place by November, however due to the aforementioned delay no audit review has been carried out. An Audit of new system for Direct Payments will therefore be carried out during 2018/19 as part of the annual plan of audit activities.

Local Authority Trading Company: Internal Audit was invited to a number of forums and has held discussions with key individuals regarding the development of LATC. As there are no areas currently to review, it has been agreed that Internal Audit will, as part of the 2018/19 annual

plan, carry out system reviews on all activities due to be transferred and prior to them moving across in order to provide assurances that the processes in operation are working efficiently.

Short Breaks: A review of the short breaks process was due to be conducted as part of the 2017/18 audit plan. Short Breaks provide children and young people with disabilities or additional needs an opportunity to spend time away from their parents, engage in fun activities and enjoy time with their friends. However discussion with the SEND Manager identified that processes were due to be changing.

"The current approach does not provide effective support based on need, has eligibility criteria that are unfair and inequitable and does not meet the legal requirements of delivering social care assessments and access to services based on need. The proposals are to introduce new eligibility criteria based on 4 levels, applying a needs based approach, introduce a new Short Breaks offer linked to the 4 levels and procure services for a 5 year period so that services can be delivered over the medium term with a degree of security."

Based on the above information, Internal Audit were consulted on the proposed process moving forward and it was agreed a full audit will then be completed in 2018/19 plan.

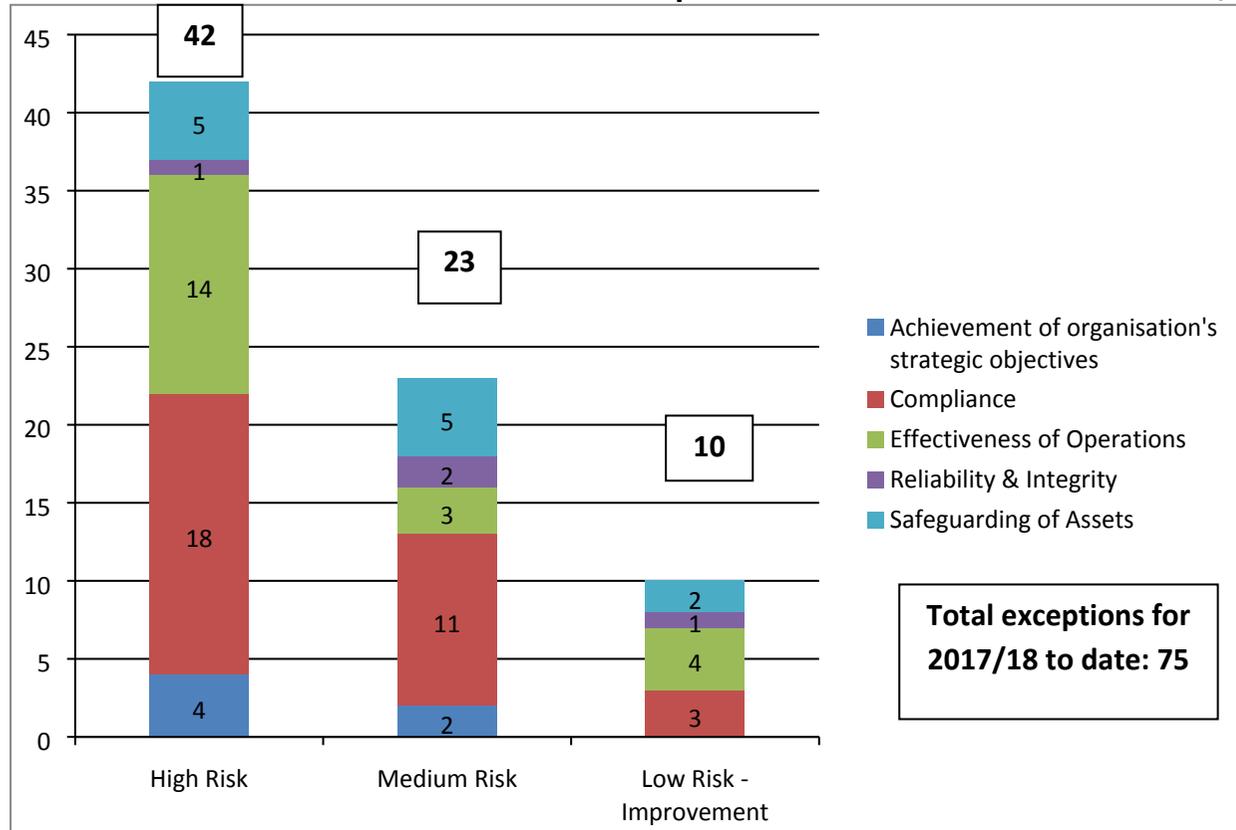
In addition to the areas noted above, Internal Audit included in the 2017/18 Audit Plan the verification of the '**Local Transport Capital Block Funding Grant**', as at the date of this report no submission has been presented for verification.

Unplanned Work:

Since 26th January 2018 to 6th April 2018, Internal Audit has provided advice in the following area. (For reference, Advice is only recorded when the time taken to provide the advice exceeds 1 hour.

- Direct Payments - The Audit Manager is attending regular meetings to discuss the progress of the improvements made in the direct payment process following attendance at the workshops.
- Direct Payments – The Audit Manager is now a member of the Direct Payment Board overseeing the implementation of the new direct payment process.

Exceptions Raised in Issued Audits 2017/18



Category	Example
Achievement of Organisational Objectives (AO)	Policy is out of date and not in line with current process
Compliance with Laws, Regulation and Policy (CMP)	Authority process /action is breaching legislation
Safeguarding of Assets (SOA)	Inventory of assets is not being maintained
Effectiveness of Operations (EOO)	Duplicate authorisation within a process
Reliability and Integrity of Data (R&I)	Reports used for decision making are inaccurate

The above table shows the number of exceptions raised based on the risk level and the category in which they were tested. At the current time, no significant trends are present in the data.

Audit Plan Status/Changes:

There have been no changes to the Audit Plan since the last update.

Areas of Concern:

Studio 144

An audit review of the Studio 144 project formed part of the audit plan. The review resulted in 5 high risk exceptions and no assurance that the project was managed in a way to minimise risk to the Authority. The key issues highlighted were:

- Project Feasibility - Insufficient reviews were undertaken throughout the lifetime of the project to verify that the project remained feasible both financially and logistically.
- Project Setup - the project was setup so that the 3 main areas, Design, Build, Fit out were procured separately which resulted in managing 3 large contractors. No business case could be evidenced to ascertain how this decision was made. The resulting delays of the project compounded the impact of this decision as each delay subsequently delayed the following contractor, thus creating financial penalties.
- Project Lifespan - The project spanned a total of 17 years from initial idea through to completion. Throughout that timeframe there were significant changes in both the political administration and key officers. A lack of adequate information management also meant that no robust timeline of events could be found to aid in the understanding of progress and decision making.
- Financial Changes - The project budget has significantly increased over the lifetime of the project from £13.5m to £30m.
- Residual Issues - At the time of the audit, there was substantial contractual issues outstanding with the contract administrator. Once reconciled, a post project review will outline what caused the deviations from the scope to determine where lessons could be learnt for future projects.

In conclusion, whilst there have been numerous issues all creating a domino effect, the main contributing factor is the length of time of this project from conception to completion. Conversely, while some external factors could not be predicted i.e the Economic Crisis, had further information been collected and analysed at the relevant times, a greater level of information would have been available to aid in any decision making which occurred. However, throughout the review it has not been possible to evidence the decision making processes and the parties involved in them. In addition, continuity of key staff and a detailed project timeline could have mitigated issues caused by the time delays

KEY:

Overall Assurance Levels:	Description / Examples
Assurance	No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority
Reasonable Assurance	Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority
Limited Assurance	Control weaknesses or risks were identified which pose a more significant risk to the Authority
No Assurance	Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit

Exception Priority Level	Description
Low Risk - Improvement	Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.
Medium Risk	These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.
High Risk	Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not “show stopping” but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.
Critical Risk	Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the organisation’s objectives in relation to: The efficient and effective use of resources, The safeguarding of assets, The preparation of reliable financial and operational information, Compliance with laws and regulations and corrective action needs to be taken immediately.

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		INTERNAL AUDIT & COUNTER FRAUD CHARTER & CODE OF ETHICS 2018-19	
DATE OF DECISION:		23rd APRIL 2018	
REPORT OF:		CHIEF INTERNAL AUDITOR	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Elizabeth Goodwin	Tel: 023 8083 4616
	E-mail:	Elizabeth.Goodwin@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 8083 4897
	E-mail:	Mel.Creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
<p>On 1st April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK.</p> <p>The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced.</p> <p>The purpose of the PSIAS are to:</p> <ul style="list-style-type: none"> • define the nature of internal auditing within the UK public sector • set basic principles for carrying out internal audit in the public sector • establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and • establish the basis for the evaluation of internal audit performance and to drive improvement planning. <p>Conformance to the standards must be reported by the Chief Internal Auditor in the annual audit report as part of the opinion on the internal control framework.</p> <p>The requirements of the Standards are covered in the attached Internal Audit & Counter Fraud Charter & Code of Ethics, Appendix 1.</p>			
RECOMMENDATIONS:			
	(i)	That the Governance Committee approves the Internal Audit & Counter Fraud Charter & Code of Ethics as attached.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to periodically review the internal audit charter and present it to the Governance Committee for approval.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None		

DETAIL (Including consultation carried out)	
3.	The Internal Audit & Counter Fraud Charter & Code of Ethics has been approved by the s151 Officer who has the responsibility for maintaining an adequate and effective internal audit function within Southampton City Council.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
4.	None
<u>Property/Other</u>	
5.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
6.	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
<u>Other Legal Implications:</u>	
7.	None
RISK MANAGEMENT IMPLICATIONS	
8.	Failure to maintain an effective internal audit functions would result in a failure of the organisation meeting its statutory responsibilities in relation to the Annual Governance Statement and Annual Audit Opinion.
POLICY FRAMEWORK IMPLICATIONS	
9.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Audit Charter & Code of Ethics 2018-19
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
Other Background Documents	

Other Background documents available for inspection at: Internal Audit Office, Civic Centre, Municipal, 1st floor, Rm 219.

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.	Public Sector Internal Audit Standards

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Introduction

1. On 1st April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. The PSIAS replace the CIPFA Code of Practice for Internal Auditors in Local Government in the UK and encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).
2. The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced. The requirements of the Standards are covered in this Internal Audit & Charter & Code of Ethics. The Standards have been revised from 1 April 2016 to incorporate the mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.

Authority

3. The Accounts and Audit Regulations 2015 Section 5, define the requirement for an internal audit function within Local Government stating that:
'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'

Responsibility

4. The responsibility for maintaining an adequate and effective internal audit function within Southampton City Council lies with the Chief Finance Officer (S151 Officer).
5. For the Council, the internal audit function is delivered in collaboration with Portsmouth City Council ('PCC') with the service being delivered under the direction and control of a shared Chief Internal Auditor (the Chief Internal Auditor for PCC).
6. The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the '*Definition of Internal Auditing*', the '*Code of Ethics*' and '*the Standards*'.

Definitions

7. In accordance with the PSIAS the definition of Internal auditing is;
'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.
8. Internal Audit is not an extension or a substitute for good management although it can advise management on risk and control issues. It is the duty of management to operate adequate systems of internal control and risk management.

9. The Internal Audit section will consider the adequacy and effectiveness of the internal control framework detailed below which aid in supporting the Authority's vision.
- Achievement of organisation's strategic objectives;
 - Reliability and integrity of financial and operational information;
 - Effectiveness and efficiency of operations and programmes;
 - Safeguarding of assets; and
 - Compliance with laws, regulations and rules, policies, procedures and contracts.
10. In accordance with the PSIAS the definition of 'the board' and 'senior management' are;
11. *The Board* – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Governance Committee.
12. *Senior Management* – those responsible for the leadership and direction of the Council. At the Council this means the Chief Executive, Chief Strategy Officer, Chief Operating Officer and the Service Directors of the council.

Purpose and scope

13. The Internal Audit section at Southampton City Council will provide an Annual Internal Audit Opinion based on an objective assessment of the Authority's framework of governance, risk management and control. It will also provide advice and consultancy services at the specific request of the Authority, with the aim of improving governance, risk management and control whilst contributing to the overall Annual Opinion.
14. The Annual Internal Audit Opinion must incorporate;
- The Opinion;
 - A summary of the work that supports the Opinion; and
 - A statement on conformance with PSIAS and the results of the quality assurance and improvement programme.
15. The Internal Audit section will not be restricted to the audit of financial systems and controls but will cover all operational and management controls. There are therefore no scope limitations, in that all of the Authority's activities fall within the remit of the Internal Audit section; however consideration will always be given to the competency, qualification and experience of those auditors tasked with carrying out the individual assignments. For example Internal Audit will not make judgements or evaluations on care or academic assessments; equally it is not in the section's remit to give an opinion on the appropriateness of policy decisions.

16. Consultancy activities (i.e. advice, facilitation, counsel and training) the nature and scope of which will be agreed with the client and are intended to add value and improve the Council's governance, risk management and control processes without the Internal Audit section assuming responsibility.
17. Special reviews may be conducted at the request of Members, Chief Executive and the s151 Officer. The Internal Audit section may also conduct investigations as requested by the Investigation Steering Panel - ISP (consisting of the Monitoring Officer, s151 Officer, Service Director for Human Resources & Organisational Development and the Chief Internal Auditor (or deputy), provided such reviews (special or investigation) do not compromise its objectivity or independence.
18. The impact on the Audit Plan must be assessed and, if necessary, the Plan reprioritised by the Chief Internal Auditor. Any significant changes must be reported to the Senior Leadership Team (consisting of the Chief Executive, Chief Strategy Officer, Chief Operating Officer and the s151 Officer) as well as the Members of the Governance Committee (the Board) in their next reporting cycle.
19. Fraud prevention and detection is the responsibility of managers. However if Internal Audit detects any suspected irregularities during the course of their activities they will report them to ISP. The Chief Internal Auditor may review the system for control weaknesses but any investigation will be under the direction of ISP.

Organisational Independence

20. The Internal Audit section has no operational responsibilities for any financial systems, including system development and installation. It may however provide advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.
21. The Chief Internal Auditor will be free from interference (although have due regard for the Authority's key objectives and risks and consult with Members and Officers charged with governance) when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.
22. Internal Audit is supported by the Authority and its independence is seen as key to providing Southampton City Council with an effective service.
23. The Internal Audit section will have free and unfettered access to the Senior Management, defined as s151 Officer, Chief Executive, Monitoring Officer, Chief

Strategy Officer, Chief Operating Officer and Service Directors. In addition the Internal Audit section will have free and unfettered access to the Leader of the Council and the Chair of the Governance Committee.

Responsibilities of Individual officers

Chief Internal Auditor

24. The Chief Internal Auditor must ensure that:
- (1) They identify the overall remit of audit activity
 - (2) They carry out an audit needs risk assessment and prioritise the results into an annual plan in consultation with the s151 Officer, Chief Executive, Monitoring Officer, Chief Strategy Officer, Chief Operating Officer, Service Directors, and Chair of Governance Committee.
 - (3) The Internal Audit resources are appropriate and sufficient i.e. in skills and knowledge and are effectively deployed to achieve the approved annual audit plan. Any inadequacies will be raised with the s151 Officer and the Governance Committee.
 - (4) There are adequate policies and procedures in place to guide the Internal Audit activities and in accordance with PSIAS.
 - (5) The Internal Audit section complies with the PSIAS and Code of Ethics at all times.
 - (6) They periodically review the Internal Audit Charter and Audit Strategy for adequacy and effectiveness.
 - (7) Constructive working relationships are fostered and encouraged between auditors, auditees, managers, and external auditors.
 - (8) The Internal Audit section maximises the use of technology for an effective service delivery.
 - (9) Confidentiality is maintained at all times.
 - (10) Individual auditors do not audit activities for which they previously had responsibility within the last 12 months.
 - (11) They take all reasonable measures to ensure that all individual auditors have an objective frame of mind and be in a sufficiently independent position to be able to exercise judgement with impartiality.
 - (12) A follow-up process to monitor and ensure that management actions have been effectively implemented is undertaken promptly.
 - (13) Where management has accepted a level of risk that may be unacceptable to the Authority that the matter is discussed with the s151 Officer, Chief Executive, Chief Strategy Officer, Chief Operating Officer and Service Directors as relevant, or escalated to the Governance Committee to resolve.
 - (14) They continuously review the quality, effectiveness and provision of the Internal Audit Section.

- (15) Access to audit records is controlled and only released in accordance with Freedom of information and Data Protection Act requirements.
- (16) All records relating to Internal Audit activities are retained for the required period and in line with the Authority's guidelines.
- (17) They assist the Governance Committee with their agenda and attend each meeting.

Individual Auditors

25. All individual auditors must ensure that they:

- (1) Maintain an impartial and unbiased attitude and avoid any conflict of interest.
- (2) Will refrain from assessing any activity to which they were previously responsible within the last twelve months, although they may provide consulting services.
- (3) Possess the knowledge, skills and other competencies needed to perform their individual responsibilities and that they enhance those skills through continuing professional development.
- (4) Exercise due professional care at all times.
- (5) Assist management in establishing or improving risk management processes, without managing those risks.
- (6) Give adequate notice of the start of a planned audit
- (7) Develop and document a plan of each assignment detailing its objectives, scope and any limitations, timing and resource allocations.
- (8) Consider the objectives, risks, effectiveness of the control framework, value for money obtained, of the activity under review, when planning and setting the objectives of each assignment.
- (9) Develop and document a programme of works that achieves the audit objectives.
- (10) Document sufficient information on their identification, analysis and evaluation of risks and controls within the area of audit activities, i.e. that the evidence is reliable, factual and adequate.
- (11) Communicate their findings based on opinion ascertained from these evaluations, providing an overall conclusion/ assurance level, risk rating, recommendations (where relevant) and proposed action plans.
- (12) Communicate all findings in an accurate, objective, clear, concise, constructive, complete and timely manner in accordance with PSIAS.
- (13) Agree a plan of action with the Service to remedy control weaknesses
- (14) Comply with the Audit Manual and PSIAS.
- (15) Maintain professional independence, objectivity, integrity and confidentiality
- (16) Inform the Chief Internal Auditor of any areas where they could have a conflict of interest which could impair or be perceived to impair their objectivity
- (17) Maintain proper documented files supporting conclusions via Audit Management Software
- (18) Hold in safe custody any documents or property or other material obtained for audit use or investigation.

- (19) Act with due care to provide “reasonable” assurance on the adequacy of control
- (20) Foster good working relationships with auditees, external auditors and service leads and managers

S151 Officer

26. The s151 Officer has the authority to ensure that the provision of the Internal Audit section is sufficient to meet the s151 requirements.
27. The s151 Officer must ensure that:
 - (1) Any suspected irregularities are properly and appropriately investigated and action taken.
 - (2) S/he is satisfied that the Annual Audit Opinion assurance statement either on its own or as part of the Annual Governance Statement, reflects accurately the position of the control framework.
 - (3) The Internal Audit section is sufficiently resourced and is effective and in the event that it is not that this is raised with the s151 Officer and members of the Governance Committee.

Chief Executive

28. The Chief Executive carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

Monitoring Officer

29. The Monitoring Officer is responsible for:
 - (1) Ensuring lawfulness and fairness in decision making
 - (2) Dealing with investigations into matters referred by the Governance Committee and making reports or recommendations in respect of them to the Governance Committee and
 - (3) Providing advice on:
 - the scope of powers to take decisions
 - maladministration
 - financial impropriety
 - probity.

Members

30. The Members as the corporate body 'the board', have the responsibility to ensure that there is a current and effective Internal Audit function. These responsibilities are delegated to the Governance Committee and include ensuring that:

31. They are satisfied 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.
32. They are satisfied 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.
33. They receive, and make recommendations on, such reports as are required in relation to all audit matters including the Annual Audit Plan.
34. The Committee shall specifically have responsibility for oversight on the following functions:
 - (1) ensuring that Council assets are safeguarded;
 - (2) maintaining proper accounting records;
 - (3) ensuring the independence, objectivity and effectiveness of internal and external audit;
 - (4) the arrangements made for cooperation between internal and external audit and other review bodies;
 - (5) considering the reports of internal and external audit and other review and inspection bodies;
 - (6) the scope and effectiveness of the internal control systems established by management to identify, assess, manage and monitor financial and nonfinancial risks (including measures to protect against, detect and respond to fraud).

Auditees

35. In accordance with the Council's constitution (Part 4 - Financial Rules Section C.12 - C.24). All persons under the controls of SCC; staff, members, contractors, temporary and agency staff must ensure that:
 - (1) They maintain a constructive approach to Internal Audit.
 - (2) Must present any cash, stores or any other authority asset under his or her control if requested to do so by an Auditor.
 - (3) Must ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
 - (4) Must ensure that auditors are provided with any information and explanations that they seek in the course of their work.
 - (5) They respond promptly and formally to audit reports within the agreed timescale
 - (6) They implement agreed actions and within an agreed timed action plan.

External Auditors

36. The Internal Audit section is expected to co-operate and regularly liaise with the external auditors to ensure an efficient and effective use of resources is achieved and unnecessary over-lapping of work is avoided.
37. The external auditors have a responsibility to assess whether Internal Audit arrangements are adequate and will, where they are able, place reliance on Internal Audit work when forming their opinion on the Authority's accounts.

Reporting Structure

38. On an annual basis the Chief Internal Auditor will present for review and approval any changes to the Internal Audit Charter and Code of Ethics, the Internal Audit Strategy and the annual audit plan of activities, including resource requirements and any perceived deficiencies to the Governance Committee, following consultation with the s151 Officer, Chief Executive, Chief Strategy Officer, Chief Operating Officer, Service Directors and relevant members.
39. An update on progress and performance to the audit plan will be presented at each Governance Committee. This will include any significant risk exposure and control issues, including fraud and governance risks.
40. Where critical risks, or a significant number of high risks are identified as part of an audit review, (i.e. those control weaknesses that could have a significant impact on the achievement of the Authority's objectives) which result in a no assurance opinion, will be reported in summary as part of the 'progress to plan' reporting. All other findings will be summarised in a covering report.
41. It is for management to determine whether or not to accept the audit exceptions and to recognise and accept the risks of not taking action. They must formally respond giving reasons for their decisions. In the event that risks are accepted they may be raised with the Senior Leadership Team to ascertain whether such acceptance is in line with the strategic direction and risk appetite of the Council. As a result they may also be reported to Members of the Governance Committee 'the Board' in their next reporting cycle. Where agreed action is proposed on critical/high risks but has not been taken within a reasonable timeframe the matter will be raised with the Service Director concerned and escalated if need to Senior Leadership Team in the event that they cannot be resolved satisfactorily via discussion with the Chief Internal Auditor.
42. All reviews of the Annual Audit Plan will be presented for approval [to the Governance Committee] along with any significant consulting services not already included in the Audit Plan, prior to accepting the engagement.
43. All reports issued in relation to any audit or counter fraud activity will be issued in the name of the Chief Internal Auditor.

Access to records and personnel

44. All Internal Auditors have right of access to all premises, personnel, documents and information they consider necessary for the purpose of their reviews as specified in the Council's constitution (Part 4 - Financial Rules Section C.12 - C.24) and to obtain such information and explanations from any employee as necessary concerning any matter under review/investigation.
45. All Internal Auditors also have the power to require any council employee, agent or Member to produce cash, equipment, computers or other Council property under their control. Internal Audit can retain or seize these items in order to protect the Council's interest, or to preserve evidence, if a suspected irregularity has occurred before considering whether to refer the issue to the Police. Consultation with the Investigation Steering Panel will be carried out in advance of contacting the Police where possible.

Due Professional Care

46. Both the Chief Internal Auditor and Deputy Chief Internal Auditor must hold a professional qualification and current membership, CMIIA, CCAB or equivalent and be suitably experienced.
47. The Chief Internal Auditor will assess on an annual basis the knowledge, skills and other competencies required within the Internal Audit section in order for it to fulfil its purpose and effectively carry out professional duties in accordance with statutory requirements. This will include technology- based audit techniques to perform assignment work. Should there be insufficiencies identified these will be reported immediately to the s151 Officer and reported to the Governance Committee if there is likely to be an impact on achieving either the Annual Audit Plan or a sufficient level of reviews to enable an effective annual audit opinion to be made.
48. All Internal Auditors will have sufficient knowledge through training and continued professional development to carry out their duties including evaluating the risk of fraud; however it remains the responsibility of management to detect and manage fraud.
49. Any impairment either in fact or appearance on any individual auditor's independence or objectivity will be escalated to the s151 officer, if the Chief Internal Auditor has been unable to resolve. Impairment may include, but is not limited to, personal conflict of interest, scope limitation, restrictions on access to records, personnel and properties and resource limitation, such as funding. A record will be made of any action taken.

Quality Assurance & Improvement Programme

50. The Chief Internal Auditor will develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit & counter fraud activities. In order to achieve this, internal on-going supervision will be carried out after each audit assignment with the results recorded in 'TeamMate' (the electronic working papers). Along with the recording of one-to-one meetings and an Annual Performance Review on each individual auditor.
51. In addition to this the Chief Internal Auditor will carry out an annual self-assessment of the Internal Audit sections performance against PSIAS, measuring the compliance with the definition of Internal Audit and Code of Ethics.
52. External peer reviews will be conducted every five years against PSIAS. The scope of the external assessment will be agreed with the s151 Officer and the Chair of Governance Committee. All results i.e. compliance or non-compliance with the standards, will be communicated to the Governance Committee along with an improvement plan if required and regular progress reports.
53. Any significant deviations from the Standards will be included in the Annual Governance Statement.
54. The effectiveness of the Internal Audit Section will be measured by;
 - (1) Risks to the Authority are identified and mitigated by agreed actions being implemented re critical and high risk exceptions highlighted in Audit reviews.
 - (2) Compliance with the PSIAS and Code of Ethics (reviewed by Peer Review)
 - (3) Satisfactory External Audit reviews (when carried out)
 - (4) External Auditors are able to rely on the work of Internal Audit when forming their opinion on the Authority's accounts.
 - (5) Audits completed to plan (90% of high risk audits completed)
 - (6) Satisfactory responses received from clients by means of end of year questionnaires.

Management of Internal Audit Activities

55. The Chief Internal Auditor will ensure that the work of the Internal Audit section is of value to the Authority. This will be achieved by ensuring that the work carried out achieves its purpose as included in this charter and that all individual auditors have demonstrated conformance with the Code of Ethics and Standards.
56. The priorities of the Internal Audit section will be determined annually using a risk based methodology and in consideration with the Authority's overall objectives. The

risk-based approach will take into account the risk management framework and risk appetite levels along with each directorate's performance as reported to Governance Committee. Details of how the plan will be delivered are contained in the Internal Audit Strategy along with any reliance placed on other sources of assurance work.

57. The Annual Audit Plan will be reviewed in response to changes in the Authority's risks, operations, systems and controls at least once during the year.

This Charter and Code of Ethics are agreed by

.....

Elizabeth Goodwin

Chief Internal Auditor

Date

.....

Mel Creighton

Chief Finance Officer s151 Officer

Date

.....

Cllr Stephen Barnes-Andrews

Chair of Governance Committee

Date

Related Papers:

Audit Strategy and Audit Annual Plans

Public Sector Internal Audit Standards and Code of Ethics

Accounts and Audit Regulations (updated)

Annex 1

Code of Ethics

Extract from the Public Sector Internal Audit Standards 2016

Public sector requirement

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the Code of Ethics as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of internal auditing to include two essential components:

Components

- 1 Principles that are relevant to the profession and practice of internal auditing;
- 2 Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

Public sector interpretation

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.

Public Sector Internal Audit Standards

1 Integrity

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2 Objectivity

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3 Confidentiality

Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4 Competency

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

Public sector requirement

Internal Auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life, information on which can be found at www.public-standards.gov.uk

Annex 2

Assurance Services

Risk based audit: in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.

Developing systems audit: in which:

- the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
- programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.

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

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

Fraud and irregularity investigations: Internal audit will also provide specialist skills and knowledge to lead on fraud/ irregularity investigations, and ascertain the effectiveness of fraud prevention controls and detection processes.

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

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DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		ANTI-FRAUD, BRIBERY & CORRUPTION, MONEY LAUNDERING, WHISTLEBLOWING POLICIES 2018-19	
DATE OF DECISION:		23rd APRIL 2018	
REPORT OF:		CHIEF INTERNAL AUDITOR	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Elizabeth Goodwin	Tel: 023 8083 4616
	E-mail:	Elizabeth.Goodwin@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 8083 4897
	E-mail:	Mel.Creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
<p>The following policies;</p> <ul style="list-style-type: none"> • Anti-Fraud & Corruption • Bribery Act • Anti-Money Laundering • Duty To Act Whistleblowing <p>have all been reviewed to enable any changes in relevant legislation to be considered for incorporation along with any amended recommended areas of best practice.</p> <p>For information the Money Laundering Regulations 2007 have been replaced with the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulation 2017. This legislation places greater emphasis on risk assessments in relation to understanding areas of potential exposure and enhanced internal controls.</p> <p>The previous Bribery Act policy and Anti-Fraud & Corruption policy have been amalgamated as the offences are interlinked and sit better considered together.</p>			
RECOMMENDATIONS:			
	(i)	That the Governance Committee approves the reviewed Anti-Fraud, Bribery & Corruption Policy, the Anti-Money Laundering Policy and the Whistleblowing (Duty to Act) Policy as attached appendix 1, 2 & 3.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	<p>To maintain compliance with the relevant legislative requirements including:</p> <ul style="list-style-type: none"> • Fraud Act 2006 • Bribery Act 2010 • Money Laundering, Terrorist Financing and Transfer of Funds Regulation 2017 • Public Interest Disclosure Act 1998 		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None		

DETAIL (Including consultation carried out)	
3.	The revised policies have all been reviewed by the Service Director for Legal & Governance to ensure that they are compliant with any legislative requirements.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
4.	None
<u>Property/Other</u>	
5.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
6.	<ul style="list-style-type: none"> • Fraud Act 2006 • Bribery Act 2010 • Money Laundering, Terrorist Financing and Transfer of Funds Regulation 2017 • Public Interest Disclosure Act 1998
<u>Other Legal Implications:</u>	
7.	None
RISK MANAGEMENT IMPLICATIONS	
8.	Non-compliance with legislation.
POLICY FRAMEWORK IMPLICATIONS	
9.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Anti-Fraud, Bribery and Corruption Policy
2.	Anti-Money Laundering Policy
3.	Whistleblowing (Duty to Act) Policy
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No

Other Background Documents

Other Background documents available for inspection at Internal Audit Office, Civic Centre, Municipal, 1st floor, Rm 219.

Title of Background Paper(s):

None

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

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Southampton City Council

Anti-Fraud, Bribery and Corruption Policy



Southampton City Council Anti-Fraud, Bribery and Corruption Policy

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Statement of Intent	3
Responsibility for the Implementation of this Policy	4
Reporting Suspected Fraud, Bribery, Corruption and or Dishonest Dealings within the Council	5
Administration & Further Information	5

Anti-Fraud, Bribery and Corruption Policy			
Version	Enter Version Number Here	Approved by	Insert body /committee with final approval
Date last amended	10/04/2018	Approval date	Click here to enter a date.
Lead officer	Elizabeth Goodwin, Chief Internal Auditor	Review date	Click here to enter a date.
Contact	elizabeth.goodwin@southampton.gov.uk	Effective date	Click here to enter a date.

Introduction

1. The public sector in the United Kingdom maintains high standards of ethics and has a good reputation for protecting the public purse. Sound systems of public accountability are vital to effective management and in maintaining public confidence.
2. Southampton City Council (hereafter referred to as the council) is determined to discharge its responsibilities to safeguard public funds and is committed to fighting fraud and corruption whether attempted from inside or outside of the council. The council is committed to the highest ethical standards and requires Members, Officers and all other staff to comply with the seven principles of public life. The council's Anti-Fraud, Bribery and Corruption Policy, codes of conduct, internal policies, procedures and relevant legislation.
3. The council believes strongly in the honesty and integrity of its Members and employees and has achieved a reputation for maintaining effective systems of control. The council also expects that all outside individuals and organisations, including suppliers, contractors and claimants, will act towards the council with honesty and integrity. The council will not tolerate fraud, corruption or other irregularities, regardless of the perpetrator. The council is therefore determined to prevent, deter and detect all forms of fraud and corruption committed against it and take appropriate action where fraud or corruption is detected.
4. This policy sets out the requirements for the council in relation to combating fraud, bribery, corruption and dishonest dealings within and against the council.

Scope

5. This policy applies to any actual or suspected internal or external fraud, bribery, corruption and dishonest dealing that involve the council and or its councillors and staff. It also covers contractor, supplier, partner, agents, intermediaries and service users. To support the policy each service has its own anti-fraud, bribery, corruption and dishonesty strategy and procedures pertaining to those service users within their area.

What is fraud, bribery, corruption and dishonesty?

6. The Fraud Act 2006 came fully into force on 15th January 2007. There is no simple definition of fraud although the courts have provided definitions applicable to specific cases. The 2006 Act provides for a general offence of fraud with three ways of committing it, which are by:
 - False representation,
 - Failing to disclose information
 - Abuse of position.

It creates new offences of obtaining services dishonestly and of possessing, making and supplying articles for use in frauds.

7. The Bribery Act 2010, which was implemented 1st July 2011, created two general offences covering the offering, promising or giving of an advantage, and requesting, agreeing to receive or accepting an advantage. It also creates a new offence of failure by an organisation to prevent a bribe being paid for or on its behalf. In simple terms it is the act of taking or receiving something with the intention of influencing the recipient in some way favourable to the party providing the bribe.

8. The council defines the term “corruption” as the giving or obtaining advantage through means which are illegitimate, immoral and or inconsistent with employees/councillors duties or the rights of others.
9. Dishonesty is an element of fraud and this has been judicially described as requiring knowledge by the defendant that what s/he was doing would be regarded as dishonest by honest people, although s/he should not escape a finding of dishonesty because s/he sets his or her own standards of dishonesty and does not regard as dishonest what s/he knows would be the normal standard of honest conduct.

Statement of Intent

10. Southampton City Council is a public body, which administers substantial funds and property and is committed to protecting those funds to which it has been entrusted.
11. We expect the highest standards of conduct from councillors, staff and all with whom we have any kind of business including:
 - Other organisations
 - Contractors
 - Suppliers
 - Partners
 - Agents
 - Intermediaries
 - And users of our services
12. We will not tolerate any level of fraud, bribery and corruption or dishonesty. Any suspected cases will be investigated promptly and thoroughly with appropriate action taken including, referral to the police and other relevant bodies.
13. The council will take all steps to minimise the risk of fraud, bribery, corruption and dishonesty by ensuring that we:
 - Carry out appropriate risk assessments throughout all levels of the Authority
 - Appropriately vet all potential employees prior to their employment with PCC
 - Have the right culture and top level commitment
 - Have a robust internal control framework, including clear and practical policies and procedures, which are effectively implemented, monitored and reviewed.
 - Perform our business activities with due diligence in a transparent and ethical manner
 - Encourage the reporting of suspected wrong doings
 - Publicise cases identified and action taken
 - Seek prosecutions and impose appropriate sanctions
 - Take appropriate action to recover any losses
14. The Code of Conduct for Employees includes a duty to report any suspected cases of fraud or corruption or dishonesty as an essential part of the process of protecting the council, its property and reputation.
15. You should have no doubt that:
 - Fraud, bribery, corruption and or dishonest dealings involving the council by members of staff will normally be regarded as gross misconduct and may well result in summary dismissal.

Responsibility for the Implementation of this Policy

16. The primary responsibility for the prevention and detection of fraud, bribery and corruption rests with management. However we are all responsible for the implementation of this policy. In the context of this policy:
17. The Director of Finance & Commercialisation & S.151 Officer is responsible for:
 - Proper administration of the council's financial affairs
 - Reporting to council and External Audit if the council, or one of its representatives makes, or is about to make, a decision which involves illegal expenditure or potential financial loss
 - Directing investigations into financial irregularities
 - Combating money laundering
18. The Monitoring Officer is responsible for:
 - Ensuring lawfulness and fairness in decision making
 - Dealing with investigations into matters referred by the Governance & Audit & Standards Assessment Sub-committee and making reports or recommendations in respect of them to the Governance committee and
 - Providing advice on the scope of powers to take decisions, maladministration, financial impropriety and probity.
19. Managers are responsible for:
 - Maintaining internal control systems and ensuring that the council's resources and activities are properly applied in the manner intended
 - Identifying the risks to systems and procedures
 - Developing and maintaining effective controls to prevent and detect fraud, bribery and corruption
 - Ensuring that controls are complied with
 - Responding to suspected cases of fraud and dishonesty pertaining to users of services within their area. (Cases of suspected internal fraud by staff or contractors etc. should be referred to Internal Audit)
 - Ensuring that suitably qualified staff are in place to carry out investigations where service user abuse is identified and that appropriate action is instigated if criminality is found. (All cases must be referred to the City Solicitor)
20. You are responsible for:
 - Your own conduct
 - Contributing towards the maintenance of corporate standards
 - Acting properly in the use of the council's resources and in the handling and use of corporate funds
 - Raising concerns under the Whistleblowing Policy if you believe you have good reason for thinking that there has been fraud, bribery, corruption or dishonest dealing with the council. (In cases of service user abuse, please raise your concerns with the relevant service manager or Head of Service).
21. Internal Audit is responsible for:
 - The independent appraisal of control systems and their operation
 - Carrying out investigations, by suitably qualified staff, into suspected corporate irregularities as directed by the Investigation Steering Panel, whose members include the S.151 Officer, Monitoring Officer, and the Service Director of HR & Organisational Development.
 - Recording all suspected or detected fraud, bribery or corruption pertaining to members of staff, contractors or external parties.

22. External Audit is responsible for:

- Reviewing the stewardship of public money
- Considering whether the council has adequate arrangements in place to prevent fraud, bribery, corruption and dishonesty

23. Each councillor is responsible for:

- Their own conduct
- Contributing to the maintenance of corporate standards.

Reporting Suspected Fraud, Bribery, Corruption and or Dishonest Dealings within the Council

24. Please also be alert to the possibility that someone is not, or may not be, dealing honestly with the council.

25. If you think you have grounds for suspicion of dishonesty, you should raise it with your manager, Internal Audit or raise it under the Whistleblowing Policy. Such concerns will, so far as possible, be dealt with confidentially as described in that policy.

26. For suspected cases of service user fraud and or dishonesty please raise your concerns with your manager, service manager or section head.

Administration & Further Information

27. The Service Director for Finance & Commercialisation will ensure that the Governance Committee monitor this document at least annually.

28. See also: -

- Whistleblowing Policy
- Disciplinary Policy
- Code of Conduct
- Gifts & Hospitality Declaration Procedure

[END]

Southampton City Council Anti-Money Laundering Policy



Southampton City Council Anti-Money Laundering Policy

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Anti-Money Laundering Policy			
Version	Enter Version Number Here	Approved by	Insert body /committee with final approval
Date last amended	10/04/2018	Approval date	Click here to enter a date.
Lead officer	Elizabeth Goodwin, Chief Internal Auditor	Review date	Click here to enter a date.
Contact	elizabeth.goodwin@southampton.gov.uk	Effective date	Click here to enter a date.

Introduction

1. Southampton City Council (the council) will do all it can to prevent the council and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.
2. The Money Laundering, Terrorist Financing and Transfer of Funds Regulation 2017, which transposed the 4th EU Money Laundering Directive into UK Law, commenced on the 26th June 2017. Whilst these obligations are not directly imposed on Local Authorities, guidance provided from financial professions, including the Chartered Institute of Public Finance and Accounting (CIPFA) indicates that public service organisations should comply with the underlying spirit of the legislation and regulations and have in place internal procedures to prevent the use of their services for money laundering. Specific to these regulations is an enhanced risk based approach in conducting due diligence reviews, which are detailed further in this policy.
3. Money Laundering Regulations apply to cash transactions in excess of 15,000 Euros (approximately £13,000). However, Proceeds of Crime Act 2002 (POCA) applies to all transactions and can include dealings with agents, third parties, property or equipment, cheques, cash or bank transfers.
4. Key points:
 - The council is committed to the prevention, detection and reporting of money laundering.
 - All employees must be vigilant for the signs of money laundering.
 - Any employee who suspects' money laundering activity must report this promptly to the Chief Internal Auditor (CIA) as the officer delegated to receive such reports.
 - All payments to the council accepted in cash that exceed £5,000 should be reported to the CIA.
 - Where the council is carrying out certain regulated activities by way of business then the customer due diligence procedure must be followed.

Scope

5. This Policy applies to all employees of the council and aims to maintain the high standards of conduct, which currently exist within the council by preventing criminal activity through money laundering. The Policy sets out the procedures which must be followed (for example reporting of suspicions of money laundering activity) to enable the Council and staff to comply with their legal obligations.
6. This Policy sits alongside the Council's Anti-Fraud, Bribery and Corruption Policy.
7. Failure by a member of staff to comply with the procedures set out in this Policy may lead to disciplinary action being taken against them and may also lead to a conviction under POCA and Money Laundering Regulations 2017. Any disciplinary action will be dealt with in accordance with the council's Disciplinary Policy.

What is Money Laundering?

8. Money laundering is the term used for a number of offences involving the proceeds of crime or terrorism funds. The following acts constitute the act of money laundering:-
 - Concealing, disguising, converting, transferring criminal property or removing it from the UK (section .327 of the proceeds of Crime Act 2002);

- Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section.328); or
- Acquiring, using or possessing criminal property (section .329).

These are the primary money laundering offences, and are thus prohibited acts under the legislation. There are two secondary offences:

- Failure to disclose any of these primary offences.
- Tipping off.

Tipping Off is where someone informs a person or people who are, or who are suspected of being involved in money laundering, in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation. A person found guilty of tipping off or prejudicing an investigation offence is liable to imprisonment (maximum five years) a fine or both under the legislation. In addition a new criminal offence was created whereby, any individual who recklessly makes a statement in the context of money laundering which is false or misleading commits an offence punishable by a fine and or up to two years imprisonment.

9. Any member of staff could potentially be caught by the money laundering provisions as noted above, if they suspect money laundering and either become involved with it in some way and/or do nothing about it. This Policy therefore sets out how any concerns should be raised.
10. While the risk to the council of contravening the legislation is low, it is important that all employees are familiar with their responsibilities. Serious criminal sanctions may be imposed for breaches of the legislation. The key requirement of employees is to promptly report any suspected money laundering activity to the CIA.

Obligations of the Council

11. When complying with the obligations the council is required to:

- Appoint a Money Laundering Reporting Officer (MLRO) to receive disclosures from employees of money laundering activity.
- Implement risk sensitive policies and procedures relating to customer due diligence, reporting, record keeping, internal control, risk assessment and management, monitoring and management of compliance, along with the communication of policies and processes.

Nominated Officers

12. The officer nominated to receive such reports from staff within that council is the Chief Internal Auditor, Elizabeth Goodwin , she can be contacted as follows:-

Elizabeth Goodwin	
Chief Internal Auditor	Telephone: 023 8083 4616
Internal Audit	Email: elizabeth.goodwin@southampton.gov.uk

13. Alternatively and in the absence of the CIA you may also contact:

Glenda Chambers	
Audit Manager	Telephone: 023 8083 4616
Internal Audit	Email: glenda.chambers@southampton.gov.uk

Reporting Arrangements

14. Cash payments to the council exceeding £5000 must be reported immediately to the CIA using the attached form (Appendix A) regardless of whether you suspect money laundering activities or not.
15. You must follow any subsequent directions of the CIA and must not yourself make any further enquiries into the matter. You must not disclose or otherwise indicate your suspicions to the person suspected of the money laundering. In addition you must not discuss the matter with others i.e. colleagues or note on the file that a report has been made to the CIA in case this results in the suspect becoming aware of the situation.
16. The CIA must promptly evaluate any Disclosure Report, to determine whether it should be reported to the National Crime Agency via the UK Financial intelligence Unit by means of a Suspicious Activity Report (SAR).
17. The CIA or any member of staff will commit a criminal offence if they know or suspect, or have reasonable grounds to do so, through a disclosure being made to them, that another person is engaged in money laundering and they do not disclose this as soon as practicable to the National Crime Agency.

Customer Due Diligence

18. Customer due diligence means that the council must know its clients and understand their businesses. This is so that the council is in a position to know if there is suspicious activity that should be reported.
19. The 2017 Regulations require that the council identifies its customers and verifies the identity on the basis of documents, data or information obtained from a reliable source. Where there is a beneficial owner who is not the customer then the council must identify that person and verify the identity and where the beneficial owner is a trust or similar then the council must understand the nature of the control structure of that trust. Finally the council must obtain information on the purpose and intended nature of the business relationship. Here are some simple questions that will help you decide if customer due diligence is necessary.

- Is the service a regulated activity? Note: Regulated activity is defined as the provision 'by way of business' of: advice about tax affairs, accounting services, treasury management, investment or other financial services, audit services, legal services, estate agency, services involving the formation, operation or arrangement of a company or trust or dealing in goods wherever a transaction involves a cash payment of £15,000 or more.
- Is the council charging for the service? I.e. is it by way of business?
- Is the service being provided to a customer other than a UK public authority?

If the answer to any of these questions is **no** then you do not need to carry out customer due diligence.

If the answer is **yes** then you do not need to carry out customer due diligence before any business is undertaken for that client.

20. Where you need to carry out customer due diligence then you must seek evidence of identity, for example.
 - Checking with the customer's website to confirm their business address;

- Conducting an on-line search via Companies House to confirm the nature and business of the customer and confirm identities of any directors;
 - Seeking evidence from the key contacts or Individuals of their personal identity, for example their passport, and position within the organisation.
21. The requirement for customer due diligence applies immediately for new Customers and should be applied on a risk sensitive basis for existing Customers.
22. Ongoing customer due diligence must also be carried out during the life of a business relationship but should be proportionate to the risk of money laundering and terrorist funding, based on the other's knowledge of the Customer and a regular scrutiny of the transactions involved.
23. If, at any time, you suspect that a client or customer for whom you are currently, or are planning to carry out a regulated activity is carrying out money laundering or terrorist financing, or has lied about their identity then you must report this to the CIA.

Enhanced Due Diligence

24. In certain circumstance enhanced customer due diligence must be carried out for Example where:
- The customer has not been physically present for identification.
 - The customer is a politically exposed person. Note: A politically exposed person is an individual who at any time in the preceding year has held a prominent public function outside the UK and EU or international institution/ body, their immediate family members or close associates.
 - There is a beneficial owner who is not the customer- a beneficial owner is any individual who: holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.
25. Enhanced customer due diligence could include additional documentation, data or information that will confirm the customer's identity and/or source of the funds to be used in the business relationship/transaction. If you believe that enhanced customer due diligence is required you must consult the CIA prior to carrying it out, to ensure that the checks are completed. An example of this would be in the case of 'Right to Buy' where there is an intention to pay either in part or fully in cash.

Record Keeping

26. Where 'relevant business' is carried out then the customer due diligence records and details of the relevant transaction(s) for that client must be retained for at least five years after the business relationship.
27. An electronic copy of every customer due diligence record must be sent to the CIA to meet requirements of the Regulations and in case of inspection by the relevant supervising body.

Guidance and Training

28. In support of the policy and procedure, the council will:
- Endeavour to make all staff aware of the requirement and obligation placed on the council and on themselves as individuals by the anti-money laundering legislation; and
 - Provide targeted training where it has been identified staff are most likely to encounter money laundering

Further Information

29. Further information can be obtained from the CIA and the following sources:

- Money laundering regulations 2017:
<http://www.legislation.gov.uk/ukxi/2017/692/made>
- National Crime Agency:
<http://www.nationalcrimeagency.gov.uk/about-us/what-we-do/economic-crime/proceeds-of-crime-centre>

Appendix A

CONFIDENTIAL

REPORT TO CHIEF INTERNAL AUDITOR:

RE MONEY- LAUNDERING ACTIVITY

**To: Elizabeth Goodwin, Chief Internal Auditor, Internal Audit,
Southampton City Council, Civic Centre, Southampton, SO14 7LY**

From:

(Insert employee name)

Service:

Dept & Ext/Tel No:

(Insert department, job title & ext.)

Details of Suspected Offence:

Name(s) and address(es) of person(s) involved
(If a company/public body please include details of their nature of business if known).
Name(s):
Address(es):
Nature, value and timing of activity involved (Please include full details e.g. date(s); what the payment was for and if this is a single transaction or has been identified as one of a series of transactions. Include all available evidence of the activity).
Date(s):
Description of activity:

Amount(s):

Where activity took place:

Evidence (Please list and attach if possible):

Reasons for suspicion of activity:

Has any investigation been undertaken to the best of your knowledge?
(If yes please include full details)

Have you discussed your suspicions with anyone else?

(Please read the notes at the foot of the page)

If yes please explain who with and why such discussion was necessary:

Please detail below any other information you feel is relevant:

Signed: _____

Dated: _____

IMPORTANT: Please do not discuss the content of this report with anyone you believe to be involved in the suspected money laundering activity either directly or indirectly with anyone else who could alert the suspect(s) that they are under investigation. If you do, this may be considered as a 'tipping off' offence under the legislation, which carries a maximum penalty of 5 years' imprisonment.

THIS SECTION FOR CIA USE ONLY

Date Report Received: _____

Date Acknowledged: _____

Reference Number Allocated: _____

(Reference)

CONSIDERATION OF DISCLOSURE TO THE NATIONAL CRIME AGENCY

Action Plan:
OUTCOME OF CONSIDERATION OF DISCLOSURE:
Are there reasonable grounds for suspecting money laundering activity?
Yes / No – State reasons
If there are reasonable grounds for suspicion, will a Suspicious Activity Report (SAR) be made to the NCA? If yes please state date report submitted: _____

If no, please state below the reasons for non-disclosure to the NCA:

(Please include details of any discussions with other Officers e.g. Legal Services, together with name(s) and advice given).

Is consent required from the NCA to any on-going or imminent transactions which would otherwise be prohibited acts?

If Yes please confirm full details

Details of liaison with the NCA

Consent Not Required: **Date SAR Report Acknowledged:** _____

Consent Requested:

Notice Period: From: _____ **To:** _____

(The NCA has 7 working days starting the first working day after the consent request is made to refuse continuation of the activity. If no refusal has been received consent is deemed to have been given and the activity may continue).

Moratorium Period: From: _____ **To:** _____

(If consent is refused during the notice period, a further 31 days starting with the day on which the consent is refused must elapse before the activity may continue. In the absence of any action to restrain the activity by law enforcement during the moratorium period the activity may continue).

Date and time consent given by the NCA: _____

(Telephone consent will often be given, which can be relied upon, and followed up in writing several days later).

SOCA Consent Reference: _____

Name and Contact Number of NCA Officer: _____

Date consent given by you to the employee: _____

Any Other relevant information:

Signed: _____ **Dated:** _____

Print Name: _____

IMPORTANT: This report and all other records relating to an investigation of suspected Money Laundering activity whether or not reported to the NCA must be kept in a confidential file for that purpose and retained for at least 5 years from the conclusion of the investigation.

[END]

Southampton City Council Whistleblowing (Duty to Act) Policy



Southampton City Council Whistleblowing (Duty to Act) Policy

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Whistleblowing (Duty to Act) Policy			
Version	Enter Version Number Here	Approved by	Insert body /committee with final approval
Date last amended	10/04/2018	Approval date	Click here to enter a date.
Lead officer	Elizabeth Goodwin, Chief Internal Auditor	Review date	Click here to enter a date.
Contact	elizabeth.goodwin@southampton.gov.uk	Effective date	Click here to enter a date.

Introduction

1. Whistleblowing is a way for employees of an organisation to raise reasonably and honestly held concerns they may have about serious matters that could put the council and/or the wider public at risk. Whistleblowing usually involves bringing forward concerns that it is in the public interest to investigate and resolve. Examples are crime, fraud, the giving or taking of bribes, financial malpractice, or practices that might endanger individuals or the environment. The aim of this policy is to outline what you can do if you believe you need to raise an issue of this nature, and how you will be protected if you do.
2. All of us at one time or another has concerns about what is happening at work. Usually these concerns are easily resolved. However, when they are about unlawful conduct, illegality, financial malpractice, endangering an individual's health or safety, or dangers to the public (including care users and clients), employees, pupils or the environment, it can be difficult to know what to do.
3. You may be worried about raising such issues or may want to keep the concerns to yourself, perhaps feeling it's none of your business or that it's only a suspicion. You may feel that raising the matter would be disloyal to colleagues, managers or to the organisation. You may decide to say something but find that you have spoken to the wrong person or raised the issue in the wrong way and are not sure what to do next.
4. Southampton City Council has introduced this policy, which reflects the legal framework and the legal obligations placed upon the council, to enable you to raise your concerns about such malpractice at an early stage and in the right way. We would rather that you raised the matter when it is just a concern rather than wait for proof.
5. If something is troubling you which you think we should know about or look into, please use this policy. If, however, you are aggrieved about your personal position, please use the Resolution of Grievances Policy - which you can get from your manager, HR Pay / Human Resources, your trade union or from the council's Intranet site. This Whistleblowing Policy is primarily for concerns where the interests of others or of the organisation itself are at risk. **If in doubt – raise it!**

Legislative Context

6. The Public Interest Disclosure Act 1998 provides legal protection, in certain circumstances, to workers making disclosures about malpractice. The Act makes it unlawful for the council to dismiss anyone or allow them to be victimised on the basis that they have made an appropriate lawful disclosure in accordance with the Act.

Our Assurances to You

7. If you raise a genuine concern under this policy, you will not be at risk of losing your job or suffering any form of retribution as a result. Provided you reasonably believe what you are reporting is true, and that the disclosure is in the public interest, it does not matter if you are mistaken. Of course, we do not extend this assurance to someone who maliciously raises a matter they know is untrue. In that case, disciplinary action may be taken against you.
8. We will not tolerate the harassment or victimisation of anyone raising a genuine concern. Taking reprisals against an employee who has raised a concern in good faith is unacceptable, and may

give rise to disciplinary proceedings. If you have raised a concern and feel at any stage subsequently that you are suffering as a result of doing so, please let the Service Director: Legal & Governance know so that appropriate action can be taken.

9. However, we recognise that you may nonetheless want to raise a concern in confidence under this policy. If you ask us to protect your identity by keeping your confidence, we will not disclose it without your consent. If the situation arises where we are not able to resolve the concern without revealing your identity (for instance because your evidence is needed in court), we will discuss with you whether and how we can proceed.
10. Remember that if you do not tell us who you are, it will be much more difficult for us to look into the matter or to protect your position or to give you feedback. Accordingly, while we will consider anonymous reports, this policy is not well suited to concerns raised anonymously.

How We Will Handle the Matter

11. Once you have told us of your concern, we will look into it to assess initially what action should be taken. This may involve an internal inquiry or a more formal investigation. We will tell you who is handling the matter, how you can contact them and whether your further assistance may be needed. If you request it, we will write to you summarising your concern and setting out how we propose to handle it.
12. When you raise the concern you may be asked how you think the matter might best be resolved. If you do have any personal interest in the matter, we do ask that you tell us at the outset. If your concern falls more properly within the Resolution of Grievances Policy we will tell you.
13. While the purpose of this policy is to enable us to investigate possible malpractice and take appropriate steps to deal with it, we will give you as much feedback as we properly can. If requested, we will confirm our response to you in writing. Please note, however, that we may not be able to tell you the precise action we take where this would infringe a duty of confidence owed by us to someone else.

How to Raise a Concern Internally

14. Step one:
 - If Officers (or staff in schools) have a concern about malpractice, wherever possible please raise it with your manager first. This may be done orally or in writing.
 - For Members, we hope you will feel able to raise it first with the relevant Service Director. This may be done orally or in writing.
15. Step two:
 - If Officers (or staff in schools) feel unable to raise the matter with their manager, for whatever reason, please raise the matter with the appropriate Service Director or Headteacher. Please say if you want to raise the matter in confidence so that they can make appropriate arrangements.
 - If you feel unable to raise the matter with the relevant Service Director or Head teacher, for whatever reason, please raise the matter with the appropriate Senior Director. Members should also raise the matter with the appropriate Senior Director if they feel unable to refer to the relevant Service Director, for whatever reason.

16. Step three:

- For officers (or staff in schools) and Members, if these channels have been followed and you still have concerns, or the above are not appropriate to you (for example, you are a contractor or consultant) or if you feel that the matter is so serious that you cannot discuss it with any of the above, please contact:

Richard Ivory	
Service Director Legal & Governance	Telephone: 023 8083 2794 Email: richard.ivory@southampton.gov.uk

Mel Creighton	
Chief Financial Officer Finance & Commercialisation	Telephone: 023 8083 4897 Email: mel.creighton@southampton.gov.uk

Elizabeth Goodwin	
Chief Internal Auditor Internal Audit	Telephone: 023 8083 4616 Email: elizabeth.goodwin@southampton.gov.uk

Any member of school staff or of a school's governing body nominated by the governing body as a contact.

17. Step four:

- For officers (or staff in schools) and Members, if for whatever reason, you feel uncomfortable in reporting your concerns direct to the named officers above then there is a facility to submit a report via email to the following generic in-box: Duty.to.act@southampton.gov.uk

Independent Advice

18. If you are unsure whether to use this policy or you want independent advice at any stage, you may contact:

- if applicable, your union; *or*
- your professional body (e.g. British Association of Social Workers, National College for Teaching and Leadership etc); *or*
- the independent charity Public Concern at Work on 020 3117 2520 or www.pcaaw.co.uk. Their lawyers can give you free confidential advice at any stage about how to raise a concern about serious malpractice at work.

External Contacts

19. While we hope this policy gives you the reassurance you need to raise such matters internally, we recognise that there may be circumstances where you can properly report matters to outside bodies, such as regulators or the police. Public Concern at Work (or, if applicable, your union) will be able to advise you on such an option and on the circumstances in which you may be able to contact an outside body safely.

20. If you choose not to raise the matter internally, we would rather you raised the matter with the appropriate "regulator" than not at all. Provided you reasonably believe what you are reporting is true, that it is in the public interest and you have evidence to back up your concern, you can also contact certain external bodies. However, not all disclosures to external bodies or individuals benefit from the protection set out in this policy. Raising a matter with a third party who you reasonably believe is responsible for the wrongdoing, or a legal adviser, or a person prescribed by Parliament (such as HMRC, the Health and Safety Executive, Office of Fair Trading) will still

be protected. Any further disclosure will only be protected if you reasonably believe that your concern is substantially true, you are not acting for any gain, and it is so serious that you could not disclose it to the council or one of the prescribed bodies first.

If you are Dissatisfied

21. If you are unhappy with our response, remember you can go to the other levels and bodies detailed in this Policy.
22. While we cannot guarantee that we will respond to all matters in the way that you might wish, we will handle the matter fairly and properly. By using this policy, you will help us to achieve this

[END]

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		RISK MANAGEMENT POLICY & ANNUAL ACTION PLAN	
DATE OF DECISION:		23 rd April 2018	
REPORT OF:		SERVICE DIRECTOR FINANCE & COMMERCIALISATION	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk	
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STATEMENT OF CONFIDENTIALITY			
None			
BRIEF SUMMARY			
The Risk Management Policy 2017-21 has been reviewed and updated to ensure that it remains aligned with good practice and reflects the 'business need'.			
The Risk Management Development Plan 2017-18, together with the Risk Management Action Plan 2018-19, reflect the 'actions taken' and 'actions planned' to further develop the council's risk management arrangements.			
RECOMMENDATIONS:			
	(i)	To note and approve the updated Risk Management Policy 2017-21 (Appendix 1).	
	(ii)	To note the status of the 2017-18 Risk Management Development Plan (Appendix 2).	
	(iii)	To note and approve the 2018-19 Risk Management Action Plan (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.	Appendix 1 is an update of an existing policy and therefore no alternative options have been considered.		
DETAIL (Including consultation carried out)			
3.	The Risk Management Policy 2017-21 provides an overview of the operating framework, arrangements and responsibilities for managing risk within the Council. It is intended to raise awareness of the overarching principles of risk		

	management and to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility
4.	The Risk Management Policy was approved by the Governance Committee at the February 2017 meeting and is subject to annual review by the Service Lead: Risk, Insurance & Audit. The changes to this document (Appendix 1) reflect minor, rather than significant change, and are intended to ensure that it remains aligned with good practice.
5.	The 2017-18 Risk Management Development Plan derives from an exercise undertaken in early 2017 which was intended to provide a refreshed approach to risk management that was aligned with both the new organisational structure and agreed organisational priorities and outcomes.
6.	The Risk Management Development Plan, arising out of this exercise, was approved by the Governance Committee in February 2017 and an update report was presented at the July 2017 meeting.
7.	The agreed development actions have been effective in repositioning risk management, with the 2018-19 Risk Management Action Plan seeking to build upon these foundations to ensure that the management of risk is seen as an 'enabler' in terms of achievement of the council's key priorities and outcomes.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
8.	None
<u>Property/Other</u>	
9.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
10.	The Accounts and Audit (England) Regulations 2015 Part 2 Section 3A(c) required the Council to have in place a 'sound system of internal control which includes effective arrangements for the management of risk'.
<u>Other Legal Implications:</u>	
11.	None
RISK MANAGEMENT IMPLICATIONS	
12.	Delivery of the action plan is intended to further develop the council's risk management arrangements.
POLICY FRAMEWORK IMPLICATIONS	
13.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	

Appendices	
1.	Risk Management Policy 2017-21
2.	2017-18 Risk Management Development Plan
3.	2018-19 Risk Management Action Plan

Documents In Members' Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
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Data Protection Impact Assessment

Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
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Other Background Documents

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.	None

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Southampton City Council

Risk Management Policy

2017/18 - 2020/21



CONTENTS

1. Purpose
2. What is risk management?
3. Risk Management Policy Statement
4. Risk Management – when and how?
5. Risk Management Roles and Responsibilities
6. Integration with other processes
7. Communication
8. Reporting
9. Review

Appendices

- i* - Glossary of common terms used in relation to risk management
- ii* - Risk Matrix (Likelihood and Impact)
- ~~*iv* - Risk Register Templates~~
- iii* - Risk Financing Policy

Publication Scheme			
Version	2.1	Approved by	Council Management Team / Governance Committee
Date last amended	March 2018	Approval date	13 th February 2017
Lead officer	Peter Rogers, Service Lead – Risk, Insurance, Assurance and Audit.	Review date	February 2018

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Contact	insurance@southampton.gov.uk	Effective date	23 rd April 2018
1. Purpose			

- 1.0 The purpose of this policy is to provide an overview of the operating framework, arrangements and responsibilities for managing risk within the Council. It is intended to raise awareness of the overarching principles of risk management and to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility. It is also relevant to Members in their capacity as ‘decision makers’ and the Governance Committee in respect of its responsibility for overseeing the Council’s risk management arrangements.
- 1.1 This policy, which has been developed in line with good practice*, recognises that risk is part of everything we do. We all manage risk – often without realising it – on a daily basis. The requirement to continue to do more with less inevitably creates challenges but also opportunities for those organisations willing and able to take the right risks. How we manage risk has never been more important in helping us meet our outcomes and objectives, improve service delivery, achieve value for money and reduce unwelcome surprises.~~local government increasingly involves dealing with uncertainty and managing significant change whilst at the same time meeting the expectation of delivering improved and more cost effective services in new and innovative ways. All of this activity attracts risk which needs to be managed effectively if required outcomes are to be achieved and exposure to unacceptable losses avoided. Effective management of risk is essential in supporting a ‘culture of innovation’ and moving from a ‘risk averse’ to a more ‘risk aware’ approach.~~
- 1.2 The principles referred to in this document are relevant and applicable to all activities that involve the management of risk. The following, which is not a complete list, illustrates the diverse range of Council policies, strategies and plans which involve, or make specific reference to, the need to manage risk.



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Corporate Decision Making Guidance

Community Risk Register (Hants & IOW)

* including '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. What is risk management?

2.0 Risk and risk management may be defined as follows:

- **Risk** - 'a significant uncertainty that may affect the organisation's ability to achieve its objectives~~the effect of uncertainty on objectives~~'. A risk might be in the form of a threat but could equally relate to the ability to exploit opportunities. ~~which can be positive or negative.~~
- **Risk Management** - 'co-ordinated activities to direct and to control an organisation with regard to risk'.

2.1 **“Successful organisations are not afraid to take risks; Unsuccessful organisations take risks without understanding them.”** Effective management of risk should be seen as an 'enabler' as opposed to a 'barrier' in terms of achievement of the Council's key priorities and outcomes. In becoming more risk aware the Council will be better placed to reduce the impact and likelihood of threats occurring and to take advantage of opportunities.

2.2 The benefits that can be derived from an effective approach to risk management include:

- Better informed strategic and operational decision-making;
- Increased chances of success and reducing our chances of failure;
- Increased knowledge and understanding of exposure to risk;
- Reduced unexpected and costly surprises;
- Minimised vulnerability to fraud and corruption;
- Provision to management of early warnings of potential problems;
- Reduction in financial costs due to, e.g. service disruption, litigation, insurance premiums and claims, and bad investment decisions;
- Delivery of creative and innovative projects; and
- Protection of reputation.

2.3 Risk management is an essential part the Council's overall governance arrangements in that it provides the framework and process to enable the organisation to manage risk in a systematic, consistent and efficient way.

2.4 The Accounts and Audit (England) Regulations 2015 state that "A relevant authority (the Council) must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk".

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- 2.5 The Council's Financial Procedure Rules also require that Chief Financial Officer prepares and promotes the authority's risk management policy statement and that Service Directors take responsibility for risk management including ensuring that there are regular reviews of risk with their service areas.

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 the need to optimise the balance between risk and reward.

Risk management is part of good management and essential in supporting a 'culture of innovation' and moving from a risk averse to a 'risk aware' approach. It is recognised that, in order to be effective, the approach to managing risk 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 outcomes and that actions should be proportionate to the level of risk.

In seeking to ensure the effective management of key risks the Council will:

- Promote a consistent and clear approach in terms of how risk should be treated and managed;*
- Raise the profile and understanding of risk management at all levels across the organisation;*
- Support officers and members in terms of taking informed risk aware decisions; and*
- Reflect good practice which is aligned with the Council's approach to corporate governance.*

4. Risk Management – when and how?

4.0 Risk Management needs to be an integral part of how services are developed and delivered every day. As well as instinctively managing risk on a day to day basis, consideration and recording of risk is required in the following management processes:

- policy and decision making.
- service planning and resourcing (at all levels)
- planning when implementing change
- project development, initiation and management
- commissioning and procurement activity
- partnership working
- business continuity planning
- health and safety arrangements
- performance management.

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~~In order to ensure that risk is managed on a consistent basis there needs to be a standard methodology setting out the key principles. This methodology can then be adapted as necessary in order to reflect the approach that is most appropriate in the circumstances.~~

~~4.1 This methodology should be followed when undertaking activities such as:~~

- ~~• Outcome Based Planning and Budgeting;~~
- ~~• Project Initiation and Planning;~~
- ~~• Organisational change;~~
- ~~• Outsourcing and partnership working;~~
- ~~• Change management (e.g. internal re-structure) etc.~~

~~4.1 The following framework does not aim to bring about a one-size-fits-all approach to managing risks however it does aim to provide a broad and high-level framework of good practice that can help those involved in the above activities to ensure that their arrangements for managing risk are structured and comprehensive. An important part of the process is to identify key risks – ‘what (risks) need to be managed in order to achieve the required outcomes of the project, service or activity’? The achievement, or otherwise, of key objectives or outcomes may depend upon:-~~

- ~~• the Council doing certain things and not doing others;~~
- ~~• the occurrence of events, both internal and external, that could affect the Council, and~~
- ~~• the circumstances in which the organisation finds itself.~~

i) Framework

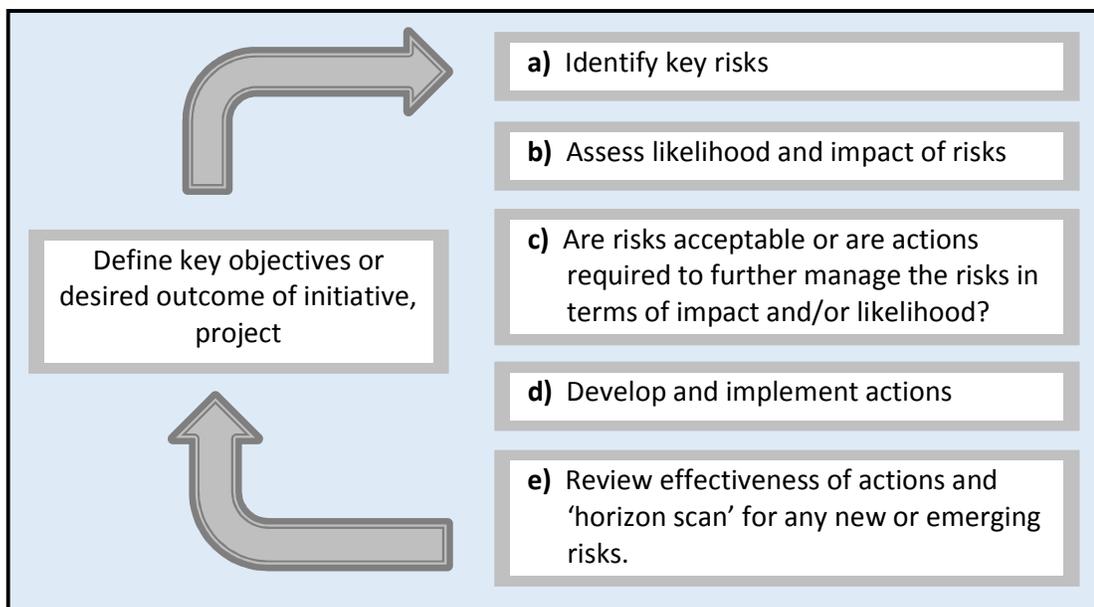


Figure 1.0 Risk Management Process and Framework

- a) What could prevent the organisation, service or project from delivering its key priorities and required outcomes? Is ‘success’ subject to key dependencies or assumptions? Have you considered the “what if” scenario? The identification of key risks may either be via a group or individual contribution however there should be consensus on what the key risks are. **Each risk should be considered in terms of ‘event – cause (or trigger) – consequence’**. Typically risks are articulated using the following terms “Loss of..., Failure to..., Lack of..., Opportunity to ..., Increase in... etc”.

There are a number of different types of risks that an organisation may face including financial loss, failure of service delivery, physical risks to people, and damage to the organisation’s reputation. To act as a prompt and to ensure completeness, a checklist of risk categories has been developed around the acronym PERFORMANCE:

<u>Political Opportunities</u>	<u>Outcomes</u>	<u>New Partnerships / Projects / Contracts</u>
<u>Economic</u>	<u>Reputation</u>	<u>Customers / Citizens</u>
<u>Regulatory</u>	<u>Management</u>	<u>Environment</u>
<u>Financial</u>	<u>Assets</u>	

- b) Each risk should then be considered in terms **of how likely it is to occur and, if it did, what the potential impact might be?** Where there are a number of risks then the ‘risk scores’ may be plotted on a ‘Risk Matrix’ (Appendix ii) which can be used to highlight the most significant risks and/or illustrate how risks compare with, or relate to, each other. In most cases the focus will inevitably be on the highest risks i.e. those that pose the greatest threat.
- c) **The aim is to ensure that that the decision maker, project manager, board, service director etc is able to make an informed decision as to whether a particular risk can, or should, be accepted** (after considering the ‘likelihood and impact’). ‘Risk appetite’ is likely to be informed by an understanding of any existing controls and will also be influenced by the expected ‘reward’ or outcome. The logic used to treat risk is as follows:

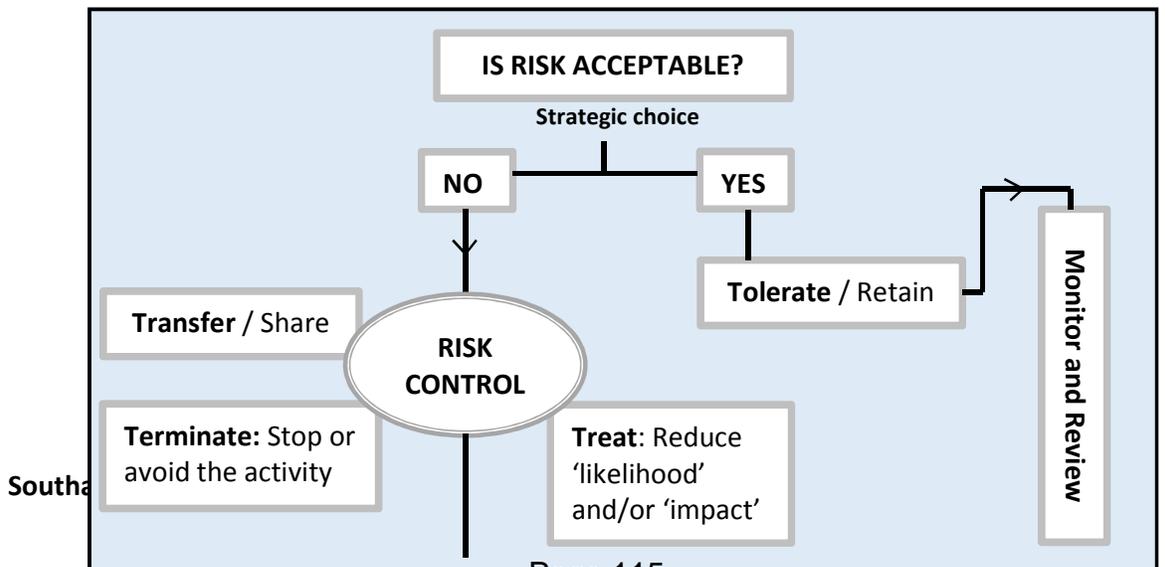




Figure 2.0 Risk Treatment Logic

- d) In terms of risk treatment the options comprise one, or a combination, of the following:
- **Treat:** reduce risks to an acceptable level by developing and implementing actions or controls to reduce the likelihood and/or impact of the risk event; OR
 - **Transfer:** risks may be able to be shared or transferred to another party e.g. contract, partnership or insurance; OR
 - **Terminate:** or avoid the activity (the risk is unacceptably high and/or the cost or effort in managing the risk to an acceptable level is disproportionate to the potential benefit or gain); OR.
 - **Tolerate:** the current level of risk is considered to be acceptable to the Council.
- e) The agreed actions to manage the risk should be formally recorded with responsibility for action clearly identified together with an appropriate timescale for action (see Appendix iii for examples of risk registers). **The risk register, or log, should be subject to periodic review, and challenge, to ensure that the agreed actions are being progressed satisfactorily.** In addition, the review will provide an opportunity to consider whether there are any new or emerging issues that may impact on the risk and/or any new risks that need to be considered.

5. Risk Management Roles and Responsibilities

5.0 All employees, members and those who act on behalf of the Council have a role to play in managing risk. The following is a summary of the principal roles and responsibilities in respect of risk management:-

Individual/Group	Role/Responsibility
Members	<ul style="list-style-type: none"> • To have an understanding of the key principles of risk management;
Cabinet Member for Finance	<ul style="list-style-type: none"> • To be responsible for leading on risk management.
Cabinet Members	<ul style="list-style-type: none"> • To ensure that there is an appropriate consideration of risk in relation to the decision making process; • To be aware of the Council’s strategic risks and those relating to their respective portfolios.

Individual/Group	Role/Responsibility
Governance Committee	<ul style="list-style-type: none"> 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; 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.
Council Management Team	<ul style="list-style-type: none"> To approve the Council’s Risk Management Policy and to determine and agree the Council’s overall risk appetite; Annually, to identify and agree the Council’s strategic risks and to facilitate development of appropriate action plans to manage the risks.
Strategy Hub Management Team / Operations Hub Management Team	<ul style="list-style-type: none"> To review, on a quarterly basis, the Council’s key risks; To review Service Risk Registers; To support and monitor the implementation and ongoing processes for embedding risk management throughout the Council.
Service Directors / Service Management Teams	<ul style="list-style-type: none"> To identify operational or service risks and ensure that such risks are managed in accordance with the Council’s Risk Management Policy, To ensure that information management risks are appropriately managed; To ensure that business continuity plans are in place covering key service areas and that the plans are reviewed and tested; To provide evidence, based on sources of internal and external assurance, to support preparation of the Annual Governance Statement.
Service Leads / Service Managers	<ul style="list-style-type: none"> To manage risk in their service areas and in accordance with the agreed risk appetite or tolerance.
Service Lead: Risk, Assurance, Insurance & Audit	<ul style="list-style-type: none"> To facilitate the continuing development of the Council’s risk management arrangements including developing appropriate guidance and information; To support services in the management of operational and strategic risk;

Individual/Group	Role/Responsibility
	<ul style="list-style-type: none"> • To facilitate and support the both the Hub Management Teams and the Council Management Team in respect of the periodic review of the Council's key risks; • To arrange appropriate risk financing measures and provide advice and guidance on the extent of insurance or self-insurance arrangements; • Where appropriate, to arrange the placement of cover with insurers including the negotiation of premium rates and policy terms.
Employees	<ul style="list-style-type: none"> • To manage risk in the course of undertaking their duties.

6. Integration with other processes

6.0 Outcome Based Planning and Budgeting / Performance Management

As part of the business planning process Service Directors and their management teams are required to consider the risks that may impact on delivery of their key priorities and outcomes. The identified risks are then used to inform development of Service Risk Registers noting that Services Directors may, at their discretion, consider it necessary to escalate a risk to the Council's Strategic Risk Register for oversight by CMT. Guidance document and templates are published on the intranet which are intended to support the development of service risk registers and provide guidance in respect of the review and monitoring processes.

<https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/service-risk-registers.aspx>

6.1 Medium Term Financial Strategy

The Council's Medium Term Financial Strategy includes a financial risk register that is reviewed on a quarterly basis. The financial risk register identifies the key risks to the Council's financial position over the short to medium term together with a summary of the mitigating actions in place and/or planned. These financial risks include an assessment of both the adequacy of proposed financial reserves and an assessment of the robustness of estimates.

<http://www.southampton.gov.uk/council-democracy/council-plans/medium-term-financial-strategy.aspx>

6.2 Decision Making

A report author is expected to provide the decision taker with relevant and proportional information regarding the risks that may be associated with the activity, project or initiative that is the subject of a decision making report. In respect of risk, the report author should consider what information the decision taker might reasonably be expected to need to know and understand, particularly those risks that they are being asked to accept. Information regarding risk should be both relevant and proportional in

order to support informed decision taking. Further guidance in respect of how risk is presented in a corporate decision making report is published on the intranet at: <https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/decision-making-risk.aspx>

6.3 Partnership Working

A 'Partnership Code' forms part of the Council's Constitution. This Code outlines the requirements for establishing, managing and reviewing partnerships, as well as expected conduct of Council officers and Councillors who are a member of a partnership. The Code makes reference to the need for risks to be assessed and monitored both at inception and dissolution of a partnership. Partnership Risk Management guidance is also published on the intranet at:

<https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/partnership-risk.aspx>

6.4 Programme and Project Management

The importance of identifying and managing risk is a theme that runs throughout the programme and project management process from initiation to implementation. Published guidance on the intranet is intended to assist both project managers and project sponsors/boards in understanding both the importance of managing risk and the process of identifying and managing key risks.

<https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/risk-management/project-risk-management.aspx>

6.5 Internal Audit

Internal audit plays a vital role in advising the Council that arrangements in relation to governance, risk management and internal control are in place and operating effectively. Response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations' objectives. The Internal Audit function provides an independent, objective assurance and consulting activity designed to add value and improve an organisations' operations. The Council's annual 'Internal Audit Plan' is informed by the Council's strategic risks together with discussions with individual Service Directors and CMT.

6.6 Corporate Governance

Corporate governance comprises the systems and values by which Councils' are directed and controlled and through which they are accountable to and engage with their communities. To demonstrate compliance with the principles of good corporate governance, Southampton City Council must ensure that it does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. CIPFA / Solace "*Delivering Good Governance in Local Government*" guidance identifies "Managing risks and performance through robust internal control and strong public financial management" as being one of the principles of good governance.

6.7 Annual Governance Statement

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The Accounts and Audit (England) Regulations 2015 require that local authorities publish an Annual Governance Statement (“AGS”) with their annual Statement of Accounts. The AGS is a key corporate document that sets out the Council’s overall corporate governance framework and highlights any significant gaps or areas where improvement is required. Risk Management is an integral part of the Council’s overall governance framework.

6.8 Fraud Risk Management

The policies and processes in respect of fraud risk management apply to all employees, elected members and others who work for or on behalf of the Council. Internal control systems are intended to minimise the opportunity for fraud or misappropriation of assets. The Council’s Anti-Fraud and Corruption Policy and associated policies are published on the intranet at:

<https://staffinfo.southampton.gov.uk/finance-procurement/risk-insurance/internal-audit/fraud-and-corruption.aspx>

7. Communication

- 7.0 The Risk Management Policy and other associated guidance and template documents are published on the intranet and subject to periodic review to ensure that they remain fit for purpose. The Risk Management Policy forms part of the Council’s Strategy and Policy Framework and is hosted on the Policy Hub.

8. Reporting

- 8.0 The Service Lead: Risk, Assurance, Insurance & Audit Risk shall, via the Service Director Finance and Commercialisation, present an annual report to the Governance Committee outlining the risk activities and risk priorities for the forthcoming period and will additionally provide a mid-term update. Any shared learning arising from the annual plan is cascaded to via Service Directors as appropriate.

9. Review

- 9.0 The Risk Management Policy is approved by Council Management Team and presented the Council’s Governance Committee for noting. The document is reviewed annually by the Council’s the Service Lead: Risk, Assurance, Insurance & Audit with any significant changes reported to both CMT for approval and the Governance Committee.

Glossary of common terms used in relation to risk management	Appendix i
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Assessing risks	<i>The evaluation of risk with regard to the impact if the risk is realised and the likelihood of the risk being realised.</i>
Consequence	<i>The outcome of an event.</i>
Contingency	<i>An action or arrangement that can be put into place to minimise the impact of a risk if it should occur.</i>
Control	<i>Any action, procedure or operation undertaken to either contain a risk to an acceptable level, or to reduce the likelihood.</i>
Corporate Governance	<i>The system by which an organisation is directed and controlled.</i>
Exposure	<i>The consequences, as a combination of impact and likelihood, which may be experienced by the organisation if a specific risk is realised.</i>
Fraud	<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>

Governance Committee	<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>
Hazard	<i>A situation or thing that has the potential to harm a person or organisation</i>
Horizon Scanning	<i>Systematic activity designed to identify, as early as possible, indicators of changes in risk.</i>
Identifying Risks	<i>The process by which events that could affect the achievement of key objectives, are drawn out, described and recorded.</i>
Impact	<i>The effect that a risk event would have if it occurs.</i>
Inherent Risk	<i>The level of risk before any action has been taken to manage it.</i>
Internal Control	<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>
Likelihood	<i>The probability that an identified risk event will occur.</i>
Operational Risk	<i>Risks concerned with day-to-day operational issues that an organisation might face as it delivers its services.</i>
Residual Risk	<i>The level of risk remaining after action has been taken to manage it.</i>
Risk	<i>The effect of uncertainty on objectives.</i>
Risk Appetite/Tolerance	<i>The amount of risk that the Council is prepared to accept, tolerate or be exposed to at any point in time.</i>
Risk Assurance Report	<i>The risk reporting tool adopted by the Council which captures information about each risk in terms of how it should be managed and the effectiveness of the controls in place (via an assurance rating).</i>
Risk Financing	<i>The mechanisms (e.g. insurance programmes) for funding the financial consequences of risk.</i>
Risk Management	<i>The culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives.</i>

Risk Owner	<i>The person with responsibility for that controls in place to manage a risk are adequate and appropriate and/or that the actions required to manage a risk are being progressed.</i>
Risk Matrix	<i>The number of levels of likelihood and impact against which to measure the risk and to record the risk appetite.</i>
Risk Policy	<i>The overall organisational approach to risk management.</i>
Strategic Risk	<i>Risks concerned with the high level strategic aims and objectives of the organisation.</i>

Risk Scoring - Likelihood and Impact Appendix ii

LIKELIHOOD	Almost Certain	A						
	Likely	B			MANAGE & REDUCE			
	Possible	C	MANAGE & REVIEW					
	Unlikely	D						
	Very Unlikely	E	MONITOR & REVIEW					
RISK RATING MATRIX			5	4	3	2	1	
			Minor	Moderate	Significant	Major	Extreme	
			IMPACT					

LIKELIHOOD (Probability)		
A - Almost Certain	> 95%	Highly likely to occur
B - Likely	↑	Will probably occur
C - Possible	50%	Might occur
D - Unlikely	↓	Could occur but unlikely
E - Very Unlikely	< 5%	May only occur in exceptional circumstances

IMPACT (Consequence)			
	SERVICE DELIVERY (key outcomes/ priorities)	FINANCIAL	REPUTATION
5 - Minor	No noticeable effect	Expenditure or loss of income < £10k	Internal review
4 - Moderate	Some temporary disruption to a single service area/ delay in delivery of one of the Council's key strategic outcomes or priorities	Expenditure or loss of income £10k - £499k	Internal scrutiny required to prevent escalation
3 - Significant	Regular disruption to one or more services/ a number of key strategic outcomes or priorities would be delayed or not delivered	Expenditure or loss of income £500k - £4.99m	Local media interest. Scrutiny by external committee or body
2 - Major	Severe service disruption on a services level with many key strategic outcomes or priorities delayed or not delivered	Expenditure or loss of income £5m - £9.99m	Intense public and media scrutiny
1 - Extreme	Unable to deliver most key strategic outcomes or priorities / statutory duties not delivered	Expenditure or loss of income >£10m	Public Inquiry or adverse national media attention

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Southampton City Council Risk Financing Policy 2017/18 - 2020/21

[This policy is an appendix to the Risk Management Policy]

CONTENTS

1. Purpose
2. Definitions
3. Structure, Resources and Accountability
4. Risk Financing Methodology
5. Alternative Risk Transfer
6. Benchmarking
7. Review

1. Purpose

- 1.0 The purpose of Risk Financing Policy, which is a key component of the Council's Risk Management Policy, is to summarise the Council's overall approach to risk financing. The Risk Financing Policy 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 The Council's Financial Procedure Rules state that the Chief Financial Officer 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 Service Lead: Risk, Assurance, Insurance & Audit reports to the Chief Financial Officer on all strategic risk financing issues and is responsible for ensuring that the adopted policy is implemented and is subject to annual review.
- 3.2 The Council's Risk Management and Insurance service 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 normally 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.
- 3.4 The appointment of an insurance broker/advisor will be led by the Service Lead: Risk, Assurance, Insurance & Audit with such an 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 to 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. Risk Financing Methodology

- 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 Policy 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 periodic review, led by the insurance broker/advisor, 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 premiums and contribution to the internal insurance fund) is apportioned across service areas on an equitable basis via an annual insurance recharge.

- 4.5 It is the responsibility of Service Directors and Service Leaders to ensure that any significant changes in exposure e.g. provision of new services, disposal of properties, outsourcing of services etc are communicated to the Service Lead: Risk, Assurance, Insurance & Audit.
- 4.6 Losses within the insurance deductible are met from the self-insurance fund, which is reviewed on a monthly basis by the Service Lead: Risk, Assurance, Insurance & Audit.
- 4.7 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 etc. 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. Benchmarking

- 6.0 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.

7. Review

- 7.0 This document will be reviewed as per the arrangements for the Risk Management Policy.

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Risk Management – Development Plan

STATUS REPORT – April 2018

AGREED ACTION	STATUS	COMMENTS / ACTIONS
1. OUTCOME: Decision makers are provided with relevant and proportional information regarding the risks that may be associated with the activity, project or initiative in order to support informed decision taking		
1	Corporate Report Template and the associated Decision Making: Corporate Standards & Guidance for Officers to be amended and republished.	COMPLETED (May 2017)
2	Existing 'Decision Risk' guidance document to be amended.	COMPLETED (May 2017)
3	Training / support for report authors to be made available.	COMPLETED (Nov 2017)
2. OUTCOME: The Council has identified and understands the key risks that may impact on the delivery of its key priorities and outcomes and appropriate action is taken to manage or mitigate the risk where it is considered to be unacceptable		
4	Annually, as part of the business planning process, CMT should review and consider the Council's strategic risks for the forthcoming period and consider what it requires in terms of output/information in respect of risk which, in turn, should reflect the Council's risk appetite.	COMPLETED (July 2017/ April 2018)
Annual CMT Risk Workshop held to review and refresh the council's Strategic Risk Register and to ensure that the risks are still appropriate, including consideration of any new or emerging risks. Risk Workshop held in July 2017, with the 2018 workshop to be held at the end of April.		

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Appendix 2
Agenda Item 13

AGREED ACTION		STATUS	COMMENTS / ACTIONS
5	Strategic Risk Register to be managed by the Strategy and Operations Hub Management Teams via a quarterly review process. Updated document to be circulated to CMT for noting.	COMPLETED (End Q2 & End Q3)	The end Q2 and Q3 Strategic Risk Register updates were undertaken by the Strategy and Operations Hub Management Teams respectively with the updated documents circulated to CMT for noting.
6	A corporate risk reporting cycle to be adopted in line with the business planning and monitoring timetable.	ACTION DEFERRED (to 2018-19)	The content and format of corporate business planning process is currently under review.
3. OUTCOME: Individual service areas have identified and understand the key risks that may impact on the delivery of key priorities and outcomes			
8	Service Management Teams to identify and report on significant risks.	COMPLETED (but to be rolled out across other services areas 18-19)	Pilot exercise undertaken within Finance & Commercialisation prior to being rolled out across other service areas. Ideally to be aligned with the corporate business planning process in terms of seeking to ensure that the risks reflect and relate to key service priorities and outcomes.
9	A service risk reporting cycle to be aligned with the corporate risk reporting cycle.	ACTION DEFERRED (to 2018-19)	See comments in Item 6.
10	Service Management Teams to nominate a 'risk lead/sponsor'.	ACTION DEFERRED (to 2018-19)	See comments in Item 8.
11	Appropriate training / support to be made available.	COMPLETED (Nov 2017)	'Risk Management Essentials' guidance and 'e-learning' module in place which cover the key principles of risk management and provide foundation learning. In addition, information on how to develop a 'Service Risk Register' has been developed and published on the intranet.
4. OUTCOME: Cabinet Members have an awareness and understanding of the key risks associated with their portfolio			
12	Both the Strategic and Service Risk Register to include reference to the portfolio(s) to which the risks relate.	COMPLETED (July 2017)	Reference to 'Portfolio' is now reflected in the Strategic Risk Register. Service Risk Registers to be developed.

AGREED ACTION		STATUS	COMMENTS / ACTIONS
13	Risk reporting should be included as part of the Cabinet Member briefing process.	COMPLETED (Feb 2018)	A 'Risk Management' paragraph (as per Item 1) is now included in the standard template Cabinet Member Briefing document.
14	Service Lead - Risk, Insurance, Assurance & Audit to provide advice and support to service areas in terms of the risk information that is presented at Cabinet Member Briefings.	COMPLETED (March 2018)	Returns from individual Service Directors, as part of the Annual Governance Statement – Self Assessment, confirm that Cabinet Members were made aware of the key risks relating to their Portfolio. In addition, ad hoc support and guidance provided to officers.
5. OUTCOME: There is a consistent and well understood corporate approach in respect of how risk is managed			
15	The current draft Risk Management Policy should be refreshed for 2017-18 and presented to both CMT and the Governance Committee (April 2017 meeting) for approval.	COMPLETED (Feb 2017 / March 2018)	Risk Management Policy for the period 2017/18-20/21 approved by CMT / Governance Committee (Feb 17). Policy reviewed in March 2018 and presented to Governance Committee for approval in April 2018.
16	The Policy should include an annual 'Risk Management Action Plan'.	COMPLETED (Feb 2017 / April 2018)	The 'Development Plan' constitutes the action plan for 2017-18. 'Risk Management Action Plan' presented to Governance Committee for approval in April 2018.
17	The Risk Management Policy should be published on the intranet.	COMPLETED (March 2017)	Risk Management Policy 2017/18-20/21 published on the intranet.
18	The Risk Management Policy should be included in the strategy and policy framework (recognising that it will need to follow the corporate template in order that it meets the design standards for the council).	COMPLETED (Feb 2017)	The format of the Risk Management Policy is in accordance with the new strategy and policy framework template.
19	The Risk Management Policy to be approved by the Senior Leadership Team / Council Management Team and Cabinet Member in order to escalate the importance and it then hosted on the new policy hub.	COMPLETED (Feb 2017)	Risk Management Policy also approved by Council in February 17 (as part of the Medium Term Finance Strategy 17/18-20/21 document). Published on the new 'Policy Hub' under 'Level 3 -Supporting Policies, Plans and Guidance'

AGREED ACTION		STATUS	COMMENTS / ACTIONS
20	Communication and training options should be identified including consideration of e-learning for new or existing staff.	COMPLETED (Nov 2017)	'Risk Management Essentials' guidance and 'e-learning' module in place which cover the key principles of risk management and provide foundation learning. Reference to this learning is included in the 'Learning and Development Matrix' which is designed to be used in connection with the new Annual Performance Review process to ensure that any mandatory or required staff training is identified.
21	The new staff 'Performance Contracts' and the monitoring arrangements should provide the opportunity to reinforce expectations in respect of responsibilities for managing risk and to dispel any perceptions in respect of a 'blame culture'.	COMPLETED (June 2016)	The new standard Job Description Template includes a requirement that employees "escalate risks and issues which may impact any aspect of performance or the Council's reputation".

RISK MANAGEMENT – Action Plan 2018-19

	THEME / ISSUE	PROPOSED ACTION	TARGET	LEAD
1.	Risk reporting	To seek to align the risk reporting cycle with the business planning and monitoring timetable (c/f from 2017-18).	Sept 2018	Service Lead: Risk, Insurance and Audit
2.	Service Risk Registers	To roll out development of risk registers across service areas based on the pilot exercise undertaken within Finance & Commercialisation. Ideally to align with the service business planning process in terms of seeking to ensure that the risks relate to key service priorities and outcomes (c/f from 2017-18).	Sept 2018	Service Management Team with Service Lead: Risk, Insurance and Audit to support and facilitate.
3.	Motor Risk Management	To undertake a detailed analysis of motor claims and to explore loss control options in consultation with insurers, as appropriate, including exploring the use of the Zurich Driver Solutions learning module.	Jan 2019	Service Lead: Risk, Insurance and Audit in consultation with Fleet Transport and insurers.
4.	Strategic Risk - Assurance	Internal Audit to undertake a periodic sample testing exercise in respect of the information included on the Strategic Risk Register to provide assurance that it reflects an accurate position and, where appropriate, is aligned with the outcome of any related internal audit reviews.	Mar 2019	Service Lead: Risk, Insurance and Audit in consultation with the Chief Internal Auditor and the respective 'Risk Owners'.
5.	Property Assets	Undertake a desktop review of the adequacy of the sums insured in respect of the housing stock with particular emphasis on the high rise blocks. Exercise to be undertaken via use of the insurers 'risk management days' that are provided as part of the current insurance contract.	Jan 2019	Service Lead: Risk, Insurance and Audit in consultation with insurers (risk consultancy) and Capital Assets.
6.	LATCo – Risk Strategy	To work with relevant officers in order to develop an appropriate approach in terms of how risk is managed within the LATCo, including the relationship with the Strategic Risk Register.	Nov 2018	Service Lead: Risk, Insurance and Audit in consultation with relevant officers.
7.	Property Fire & Security	To facilitate and direct a programme of property 'fire and security' risk reviews either at the request of insurance underwriters or in response to an area of concern.	Sept 2018	Service Lead: Risk, Insurance and Audit in consultation with insurers and the Responsible Persons within the respective premises/service areas.

	THEME / ISSUE	PROPOSED ACTION	TARGET	LEAD
8.	Risk support and advice	To undertake a procurement exercise in order to appoint a 'risk and insurance broker/consultant' (from expiry of the current contract).	Sept 2018	Service Lead: Risk, Insurance and Audit
9.	Guidance and advice	To ensure that an appropriate and current range of risk management and insurance guidance documents are available and aligned with the requirements of service areas.	March 19	Service Lead: Risk, Insurance and Audit
10.	Policy and Strategy	To review and update the Risk Management Strategy to ensure that it remains relevant and appropriate. Report any significant changes to the Governance Committee.	March 19	Service Lead: Risk, Insurance and Audit

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		EXTERNAL AUDIT PROGRESS REPORT FOR YEAR ENDING 31 MARCH 2018	
DATE OF DECISION:		23 APRIL 2018	
REPORT OF:		EXTERNAL AUDITOR	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	MARTIN YOUNG	Tel: 02380 382220
	E-mail:	myoung1@uk.ey.com	
Director	Name:	Helen Thompson	Tel: 02380 382099
	E-mail:	HThompson2@uk.ey.com	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
The external auditor's plan, taken to the February 2018 Governance Committee, set out how we would carry out our responsibilities. This report provides an update on our progress.			
RECOMMENDATIONS:			
	(i)	The Governance Committee is invited to comment on and note the External Audit Progress Report for year ending 31 March 2018.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	Issued in accordance with the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None.		
DETAIL (Including consultation carried out)			
3.	The External Audit Progress Report for year ending 31 March 2018 has been provided to relevant senior managers for comment.		
RESOURCE IMPLICATIONS			
<u>Capital/Revenue</u>			
4.	N/A.		
<u>Property/Other</u>			
5.	N/A.		

LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
6.	Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements
Other Legal Implications:	
7.	N/A.
RISK MANAGEMENT IMPLICATIONS	
8.	N/A.
POLICY FRAMEWORK IMPLICATIONS	
9.	N/A.
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	N/A
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	The External Audit Progress Report for year ending 31 March 2018
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
Other Background Documents	
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)
N/A	

Southampton City Council Audit progress report

Year ended 31 March 2018
April 2018



Private and Confidential
Governance Committee Members
Southampton City Council
Civic Centre
Southampton, Hampshire, SO14 7LY

April 2018

Dear Governance Committee Members

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Committee with an overview of our progress against the Council's 2017/18 audit plan, reported to you in February 2018. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

Enc

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02 Areas to highlight



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Governance Committee and management of Southampton City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance Committee, and management of Southampton City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance Committee and management of Southampton City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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01 Progress Update



Progress on 2017/18 Audit

The following 'dashboard' summarises the progress of the 2017/18 audit after our interim audit visit. It seeks to provide the Governance Committee with an overview of the progress of the audit to date, and any issues arising.

Audit Area	Status	Details
Walkthroughs of key systems	Completed	<ul style="list-style-type: none"> - Accounts receivable - Council Tax - Financial Statement Close Process and Journals - Housing Benefits - Housing Rents - Income Collection and banking - Non Domestic Rates - Pensions - Property, Plant and Equipment - Purchase to pay - Treasury Management
Walkthroughs of key systems	In progress	<ul style="list-style-type: none"> - Payroll - supporting evidence was sent to us at a Southampton.gov.uk e-mail address after we had completed our Planning visit (November 2017) and left site. We do not have remote access to these e-mails. Our e-mail address was routinely deleted by IT (due to inactivity) before we returned to site and the data deleted. We have requested the evidence is resent.
Property, Plant and Equipment - additions (Month 1- Month 10)	Completed	<ul style="list-style-type: none"> - Additions testing has been completed. No issues arising, - We will need to 'top up' this sample at year so that we have tested the entire year.
Cost of service income and expenditure testing (Month 1 to Month 10)	In progress	<ul style="list-style-type: none"> - Our work in this area is ongoing. - For more detail please see Section 2, under data analytics
Payroll expenditure testing (Month 1 to Month 10)	In progress	<ul style="list-style-type: none"> - Our work in this area is ongoing. - For more detail please see Section 2, under data analytics



02

Areas to highlight



Areas to highlight

Issue	Points to note
Control weaknesses identified during our walkthroughs	<p>Our Income Collection and Banking walkthrough identified that vendor accounts were not being updated in a timely manner on receipt of payments.</p> <p>In November 2017, approximately £3m of receipts were held in a cash suspense account, unmatched to vendor accounts. This means that vendor accounts would appear to be in arrears when they had in actual fact been paid. This could lead to arrears recovery action being inappropriately taken.</p> <p>We reported this issue to the Service Director Finance & Commercialisation in November 2017 and the issue was promptly rectified.</p>
<p>Data analytics</p> <p>Relates to Section 2: Audit risks in our Audit Plan</p> <p>Particularly 'Earlier deadline for production of the financial statements.'</p>	<p>Data analytics is fundamental to our audit approach. Without being provided with the data we request, we will be unable to complete our audit.</p> <p>We provided the Council with the data analytics request for our interim visit in November 2017. We provided a working paper request for our interim visit in December 2017 which contained the full analytics request. We also offered to run a workshop for anybody preparing working papers.</p> <p><u>General ledger</u></p> <p>We requested that data be provided to us by 19th February 2018. Data was provided 10 days late, the data was also incomplete. It did not contain all transactions and had no mapping (a working paper linking general ledger account codes to areas of the financial statements).</p> <p>It is important to understand that:</p> <ul style="list-style-type: none"> - due to the transitional change within the finance team, no staff have prior experience of preparing this data. We have worked closely with staff who will be preparing the data moving forward to ensure they understand our requirements; and - the Council have made good progress simplifying the process of mapping their ledger to their financial statements (a recommendation we made last year). <p>Our analytics team schedule their work based on timely receipt of data. If data is not provided on time, a client goes to the 'back of the queue.' As a result, delay in providing the data was compounded by its processing taking longer than desirable.</p> <p>We were unable to complete our testing of income and expenditure during the interim audit visit. We have provided management with our samples and agreed to reallocate resource from planned Housing Benefit certification work in April 2018 to complete the testing.</p> <p><u>Payroll</u></p> <p>Our data analytics requests were made as above. The initial data was provided 18 days late. We experienced issues with the completeness of the data provided (gross pay less deductions did not equal net pay). We have worked with the Council to reduce the difference to an acceptably low level. This was an iterative process and was caused by all deductions not being included in the data provided to us. Similar to above, we plan to complete this work in April 2018.</p> <p>Moving forward, we have agreed a date of 4th May 2018 for general ledger and payroll data to be submitted to us for our final visit. If this data is not provided on time, it will put timely delivery of the audit at risk.</p>



Areas to highlight

Issue	Points to note
<p>Other areas of audit focus: Private Finance Initiatives (PFIs)</p> <p>Relates to Section 2: Audit risks and Section 6: Audit team (use of specialists) in our Audit Plan</p> <p>Page 146</p>	<p>We have identified an additional area of focus for the audit, that has not been classified as a significant risk, but is still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be a key audit matter that we will include in our audit report.</p> <p>Private Finance Initiatives (PFIs)</p> <p>The Council has two PFIs on its Balance Sheet: PFI Schools and PFI Street Lighting. Accounting for PFI is a complex area. The PFI Schools and PFI Street Lighting have not been reviewed by a specialist since EY took over as your external auditors. We have been relying on specialist reviews undertaken by the Audit Commission, updated by a work program completed annually by the audit team. Due to the time lapsed since these arrangements have been subject to specialist review, we have determined it is appropriate to have them reviewed this year. We have communicated this to management and arranged meetings to progress this area of work.</p>
<p>Materiality</p> <p>Relates to Section 4: Materiality in our Audit Plan</p>	<p>In our audit plan we communicated our initial planning materiality, performance materiality and audit differences level. We have recalculated these to:</p> <ul style="list-style-type: none"> - Planning materiality £13.3m (from £15.3m) - Performance materiality £10.0m (from £11.5m) - Audit differences £ 663k (from £ 763k) <p>We routinely reassess materiality throughout our audit and will confirm the final materiality used in our audit results report.</p>