



SOUTHAMPTON CITY COUNCIL

AUDIT COMMITTEE – ANNUAL REPORT
2011/12



Cllr D Furnell
(CHAIR)

INTRODUCTION

I have recently taken over as Chairman of the new Governance Committee the successor to the Audit Committee. Ex Councillor Michael Ball was previously the Chairman of the Audit Committee for the last four years and I would like to thank him for the contribution he made to the smooth running of the committee. Over the last year the Audit committee has had a good balance of people with a wide range of experience. There was training instigated for new and existing members at the start of the year and this has continued with new and existing members attending training sessions.

There have been five meetings over the last financial year and there is a clear process of business which needed to be assessed by the Audit Committee. There was a clear diary of decisions which needed to be made and these were followed efficiently.

The committee received several key annual reports during the year:

- Audit Commission – Annual Governance Report & Annual Audit Letter
- Risk Management Action Plan
- Chief Internal Auditors Annual Report
- Strategic Risk Register and Review of Prudential Limits
- Treasury Management Strategy
- Annual Governance Statement

During the year the committee has paid particular attention to any key findings made by the internal and external auditors. They have made recommendations on any failings in internal controls. Overall there have been no serious problems found in internal controls. The previous Chairman's report highlighted poor accounting in schools however, specific issues reported have since have been resolved and this area is under continuing review. Note has also been taken on any changes in accounting standards.

The major change in the past year has been the government's implementation of the transfer of the Audit Commission's work to the private sector. This will take effect from 31 October 2012 with the audit work transferred to the private sector, this has resulted in a reduction of the annual audit fee.

From this financial year the old Audit Committee has been wound up and integrated with the previous Standards and Governance Committee to form the new Governance Committee to fulfil the functions of the two previous committees.

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

Cllr David Furnell
Chairman Governance Committee

Purpose of the Report

1. The purpose of this report is to inform the Governance Committee of the work carried out by the Audit Committee during the 2011/12 Municipal year.

Background

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

Membership

4. The Committee comprised seven Members, reflecting the political proportionality of the Council. The Committee was independent of both the Executive and Scrutiny. The Members for 2011/12 were:
 - Cllr Michael Ball (Chair)
 - Cllr Raymond Mead (Vice-Chair)
 - Cllr Edward Daunt
 - Cllr David Fuller
 - Cllr David Furnell
 - Cllr Satvir Kaur
 - Cllr Dr Darren Paffey
5. The Committee was supported by the Chief Finance Officer and the Chief Internal Auditor. Appropriate representatives from the Audit Commission also attended all five meetings held during the year.

Terms of Reference

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

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

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

Work Programme 2011/12

8. The Committee met on five occasions during the 2011/12 municipal year:
 - 23rd June 2011
 - 22nd September 2011
 - 6th December 2011
 - 26th January 2012
 - 23rd April 2012

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

Risk Management

- One of the Committee's key functions was to provide independent assurance to the Standards and Governance Committee on the adequacy of the risk management framework. At its first meeting of the Municipal year, the Committee noted the latest iteration of the Risk Management Strategy and approved the Risk Management Action Plan for 2011/12 and reviewed the status of actions from the 2010/11 Plan.

- The Council's Strategic Risk Register and associated Risk Management Action Plans (RMAPs) are intended to capture the key strategic risks that may prevent or have a significant adverse effect on the achievement of the

Council's key objectives. The Committee reviewed the 2011/12 Strategic Risk Register and was satisfied that the document adequately reflected the key strategic risks facing the Council.

Internal Control

- In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control and to assist in producing the Annual Governance Statement. The Committee received the report for 2010/11 at its first meeting of the Municipal year. The Auditor's opinion was that the Council's framework of governance, risk management and management control was basically sound; however, some weaknesses were identified and evidence was found that the framework was not always consistently applied. Significant issues identified were:
 - In response to local government elector queries raised with the District Auditor, internal audit have supported the Audit Commission in reviewing the way the Council operates its heating charges account. Review highlighted some significant weakness in internal control. Testing carried out identified inadequate controls in place to govern changes made to the record of electricity meters. Additionally the Council had poorly managed commissioned surveys of electricity meters and failed to set up an accurate meter record.
 - Following a number of internal audit reviews during 2010–11, commonalities in control weaknesses were identified exposing both individual service areas and the Council to the risk of loss and / or failure to comply with corporate policy Common failings were identified with regard compliance with:
 - Contract procedure rules;
 - Declarations of interest; and
 - Financial procedure rules
 - The TPY programme ended in March 2011. To continue the improvements identified during the life of the programme a charitable company was created, by TPY members, 'Plus You Limited' (PYL) to deliver the future needs of the area. PYL will take over the ownership of TPY assets and will generate income to re-invest into projects when the funding ceases.
 - At the time of the audit there was no action plan in respect of close down procedures for TPY to hand over to PYL or clear distinction between assets belonging to PYL or the Council. Additionally the succession strategy was pending approval both locally and by the CLG.

- As part of its remit to provide independent assurance on the adequacy of internal control procedures, the Committee reviewed the draft Annual Governance Statement (AGS) and recommended its acceptance to the Standards and Governance Committee. The AGS is a key corporate document that should provide an accurate representation of the corporate governance arrangements in place during the year and highlight those areas where there are gaps or where improvements are required. The Committee was satisfied that the draft AGS was meaningful and that the system of internal control had operated effectively throughout the reporting period. Progress against the Action Plan, put in place to address outstanding issues, was reviewed by the Committee at a subsequent meeting. The Committee also approved the 'assurance gathering process' to support the development of the 2011/12 AGS.

Internal Audit

- The Annual Operational Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure the most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements. The Committee commented on and approved the revised Annual Operational Internal Audit Plan for 2011/12, which had been updated to ensure that it remained aligned with significant business risks and was responsive to the priorities and concerns of the management team. At its final meeting of the Municipal year, the Committee approved the new Internal Audit Plan for 2012/13.
- At each meeting, the Committee also received a detailed update summarising the activities of internal audit for the period since the previous meeting and the actions taken by management to address any control issues identified.

External Audit

- The Audit Commission's Annual Audit Letter for 2010/11 was presented to the Committee in December, setting out the results of the statutory audit of the Council's 2010/11 financial statements and the assessment of the Council's arrangements to achieve value for money in the use of resources. The key messages in the Annual Audit Letter were:
 - The Auditor issued an unqualified opinion on the financial statements for the year ending 31st March 2011;
 - The Auditor issued an unqualified value for money conclusion stating 'it has been another challenging year for the Council in which you have responded positively to the challenge of continuing financial pressures and maintained your focus on delivering efficient and effective services'.

- The Auditor acknowledged the Council's current and future challenges. Going forward, the Auditor advised of the main challenges to the Council over the forthcoming twelve months:
 - restructuring of the Council's workforce to improve the efficient working of the Council and reduce the number of senior management posts;
 - the delivery of the estates regeneration programme phases 2 and 3; and
 - joint commissioning with the Primary Care Trust for the commissioning of Adult Health and Social Care.

Other challenges the Council will face over the next few years, include:

- changes proposed in the government's Welfare Reform Bill, including new arrangements for housing and council tax benefits;
 - changes proposed in the government's Localism bill, including new arrangements for funding social housing and for enabling local groups to take over community facilities and services; and
 - government proposals to allow local authorities to retain business rates.
- At each meeting, the Committee received a progress report against the 2010/11 and 2011/12 Audit and Inspection Plans, including the Annual Governance report.
 - Within the year the Audit Committee has responded to a DCLG consultation on the 'Future of Local Public Audit'. The consultation set out proposals to disband the Audit Commission and transfer the work of the Audit Commission's in-house practice into the private sector and put in place a new local government framework.

The Audit Committee provided a comprehensive response to a 50 point consultation document to represent the Council's views on central governments proposals

Finance

- The Committee recommended to the Standards and Governance Committee that the Statement of Accounts for 2010/11 be approved.
- In order to comply with Part 1 of the Local Government Act 2003, and the established treasury management procedures that have been adopted by the Authority, each year the Council must approve a Treasury Management Strategy and set certain borrowing limits. The Committee endorsed the Treasury Management Strategy for 2012/13 prior to its submission to Council for final approval.

Conclusion

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

Appendix A

A full list of the reports received at meetings of the Audit Committee for the Municipal year 2011/12

23rd June 2011

- Chair's Annual Report on Audit Committee 2010/11
- Audit Commission: Audit and Inspection Plan Progress Report
- Audit Commission: Annual Audit Fee 2011/12
- Annual Governance Statement 2010/11
- Risk Management Action Plan and Review of Strategy
- Chief Internal Auditor's Annual Report and Opinion 2010/11
- Future of Local Public Audit - Consultation

22nd September 2011

- Strategic Risk Register
- Review of Prudential Limits and Treasury Management Outturn 2010/11
- Treasury Management Strategy and Prudential Limits Mid Year Review
- Statement of Accounts 2010/11
- Audit Commission: Annual Governance Report 2010/11 (Draft)
- Future of Local Public Audit - Update
- Internal Audit: Status of Work – August 2011

6th December 2011

- Audit Commission – Annual Audit Letter 2010/11
- Audit Commission: Audit and Inspection Plan Progress Report
- Annual Governance Statement 2010/11: Action Plan Status Report
- Risk Management Action Plan 2011/12: Status Report
- Strategic Risk Register – Update
- National Fraud Initiative 2010/11
- Internal Audit Progress Report – November 2011

26th January 2012

- Annual Governance Statement 2011/12: Assurance Gathering Process
- Audit Commission: Audit and Inspection Plan Progress Report
- Treasury Management Strategy and Prudential Limits 2012/13- 2014/15

23rd April 2012

- Audit Commission: Audit Committee Update
- Internal Audit: Internal Audit Plan 2012/13
- Internal Audit: Progress Report – March 2012