



CHIEF INTERNAL AUDITOR'S ANNUAL REPORT AND OPINION 2012 - 2013

**Neil Pitman
Chief Internal Auditor
24 June 2013**

**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

1. INTERNAL CONTROL AND THE ROLE OF INTERNAL AUDIT

- 1.1. Under the Accounts and Audit (England) Regulations 2011, the Council is required to 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'. For the purposes of our 2012/13 opinion the standards for 'proper practices' for internal audit are laid down in the Chartered Institute of Public Finance and Accountancy's *Code of practice for internal audit in Local Government in the United Kingdom (2006)* ["CIPFA Code"].
- 1.2. Internal audit is an assurance function that provides an independent and objective opinion to the Council on the control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the Council's objectives.
- 1.3. It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risk is appropriately managed and outcomes achieved.

2. INTERNAL AUDIT OPINION

- 2.1. The purpose of this report is to give my opinion as Chief Internal Auditor for Southampton City Council on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance from the work internal audit have carried out for the year ending 31 March 2013.
- 2.2. The report and opinion provides as a key contributor to the Annual Governance Statement, however, remains only one element of the wider assurance process.
- 2.3. In giving this opinion, it should be noted that assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:
 - written reports on all internal audit work completed during the course of the year;
 - results of any follow up exercises undertaken in respect of previous years' internal audit work;
 - the results of work of other review bodies where appropriate;
 - the extent of resources available to deliver the internal audit work;
 - the quality and performance of the internal audit service and the extent of compliance with the CIPFA Code;
 - any limitations which may have been placed on the scope or operation of internal audit; and
 - the proportion of Southampton City Council's audit need that has been covered within the period.

Opinion

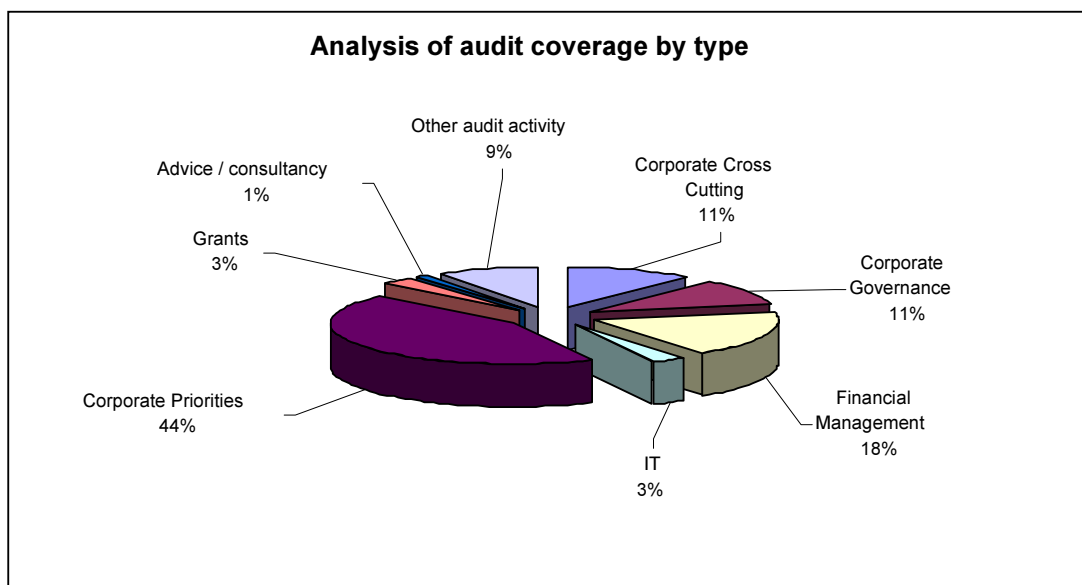
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Southampton City Council's internal control environment.

In my opinion, Southampton City Council's framework of governance, risk management and management control is 'Adequate' and audit testing has demonstrated controls generally to be working in practice.

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

3. INTERNAL AUDIT COVERAGE AND OUTPUT

- 3.1. The internal audit plan was prepared to take account of the characteristics and relative risks of Southampton City Council's activities and to support the preparation of the Annual Governance Statement.
- 3.2. The 2012 -13 internal audit plan, approved by the Audit Committee 23 April 2012 was informed by the internal audits own assessment of risk and materiality in addition to consultation with management and review of the corporate risk register, to ensure the plan addressed the key risks facing each directorate.
- 3.3. Internal audit delivered 970 audit days across 70 review areas over the course of the year ending 31 March 2013.



3.4. The revised 2012-13 internal audit plan has been delivered with the following exceptions:

- At the time of this report, the following reviews remain work in progress:
 - Health & Safety
 - Human Resources
- Work is substantially complete and an opinion has been formed for 11 reviews, however, formal draft reports have not yet been agreed with management

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

3.5. We have published an opinion in final or draft reports (where we are concluding discussions with management in the agreement of action plans) in respect of 52 reviews completed during the year¹.

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

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

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

Opinion	Framework of governance, risk management and management control	Number of opinions in this category (2012-13)
Substantial assurance	A sound framework in place that is operating effectively.	13
Adequate assurance	Basically a sound framework in place with possible opportunities to improve controls or some immaterial evidence of inconsistent application.	23 (incl 6 draft opinions)
Limited assurance	Critical weakness (es) identified within the framework and / or significant evidence of inconsistent application.	14 (incl 4 draft opinions)
No assurance	Fundamental weaknesses have been identified or the framework is ineffective or absent.	2 (incl 1 draft opinion)

¹ 16 reviews did not culminate in a formal opinion as they relate to work conducted in respect of consultancy, assurance mapping, grant certification or fraud and irregularity investigations

4. SIGNIFICANT ISSUES ARISING

4.1. Non residential care contributions – No assurance (DRAFT)

Southampton City Council has a duty to facilitate the provision of social care to those individuals who qualify under its current eligibility criteria. In accordance with Government guidance, the Council is permitted to require those people identified as needing social care who have the ability to pay to make a contribution towards the cost of that care.

There are approximately 3,600 Health and Social Care clients being billed; approximately 2,000 of which are in receipt of non residential care.

The primary purpose of this review was to assess the end to end billing process of non residential care costs.

The audit report currently provides a 'no assurance' opinion and is in draft form. Key observations detailed within the report have been presented to senior officers of the Council.

The report will be shared with the Governance Committee on finalisation.

4.2. Mobile phones

A review of mobile phones usage across the Council highlighted a significant ratio of handsets compared to establishment numbers (of which 20% were smart phones / Blackberry's)

The guidance to support the use of mobile phones had not been reviewed for a number of years

The acquisition of mobile devices lacked sufficient needs assessment or authorisation. Additionally there was no requirement for recipients of mobile devices to acknowledge awareness / compliance with the mobile phone policy.

Whilst a central inventory was maintained detailing receipts, issues and asset numbers of mobile devices a lack of compliance with documented procedures regarding changes in users undermined the reliability of the inventory database.

Procedures followed for the monitoring of mobile phone usage was inconsistent and there was no assurance that reimbursement was received for personal calls.

5. ANTI FRAUD AND CORRUPTION

- 5.1. During the year internal audit have facilitated the submission of relevant datasets for inclusion in the 2012/13 National Fraud Initiative (NFI).

Initial matches were fed back to local authorities in March 2013 and work has been scheduled to review all 'high priority' matches as part of our 2013/14 audit plan.

Regular updates on progress and potential savings from the NFI exercise will be fed back to the Governance Committee as part of our established quarterly 'Progress Reports'

- 5.2. In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of 11 allegations of fraud, corruption or improper practice. A number of these cases were allegations made under the Duty to Act ("Whistle blowing") Policy. Of these:
- 7 were investigated, but with no further action required;
 - 3 resulted in disciplinary action; and
 - 1 assisting police with their enquiries

6. INTERNAL AUDIT PERFORMANCE

- 6.1. The following performance indicators are maintained to monitor effective service delivery:

<i>Annual performance indicators 2012-13</i>		
Aspect of service	2012-13 Target	2012-13 Actual
% of revised plan delivered (inc 2011/12 carry fwd)	90%	97%
Compliance with professional standards	Compliant	Compliant
% of positive customer responses to quality appraisal questionnaires	90%	94%

6.2. Internal Audit Resources

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

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

The Partnership benefits through pooled expertise and greater business resilience to ensure the professional and timely delivery of the internal audit plan(s), coupled with the ability to flex resource to meet service demands.

Our 'internal audit strategy' ensures the Chief Internal Auditor has sufficient resource necessary to fulfil the requirements and expectations to deliver an internal audit opinion.

Significant matters that jeopardise the delivery of the plan, or require changes to the plan are identified, addressed and reported to the Governance Committee

6.3. Quality Control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. This was achieved in 2012-13 through the following internal processes:

- Compliance with CIPFA Code of practice for internal audit in local government (2006);
- ongoing liaison and communication with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- ongoing development of a constructive working relationship with the External Auditors to ensure development of a cooperative assurance approach;
- a tailored audit approach using a defined methodology and assignment control documentation;
- A review of the 'Effectiveness of the System of Internal Audit' in accordance with the Account and Audit (England) Regulations 2011;
- Registration under ISO 9001 quality management standard, complimented by a comprehensive set of audit and management procedures to underpin this; and
- the review and quality control of all internal audit work by professional qualified senior staff members.

7. ACKNOWLEDGEMENT

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

Neil Pitman
Chief Internal Auditor
24 June 2013