

# Annual Internal Audit Report & Opinion

2014 - 15

Southampton City Council



**Southern Internal  
Audit Partnership**

Assurance through excellence  
and innovation

## Contents

<b>Section</b>	<b>Page</b>
1. Role of Internal Audit	3
2. Internal Audit Approach	4
3. Internal Audit Opinion	5
4. Internal Audit Coverage and Output	6-7
5. Significant Issues Arising	8-9
6. Anti Fraud and Corruption	9-11
7. Quality Assurance and Improvement	11-12
8. Disclosure of Non-Conformance	12
9. Quality control	13
10. Internal Audit Performance	13
11. Acknowledgement	14
<b>Appendices</b>	
A Quality Assessment & Improvement Programme	15

## 1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body 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.’***

The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [the Standards].

The role of internal audit is best summarised through its definition within the Standards, as an:

***‘Independent, objective assurance and consulting activity designed to add value and improve an organisations 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’.***

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

## 2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



### 3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, 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 (assurance & consultancy);
- 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 Standards; and
- the proportion of Southampton City Council's audit need that has been covered within the period

#### Audit Opinion

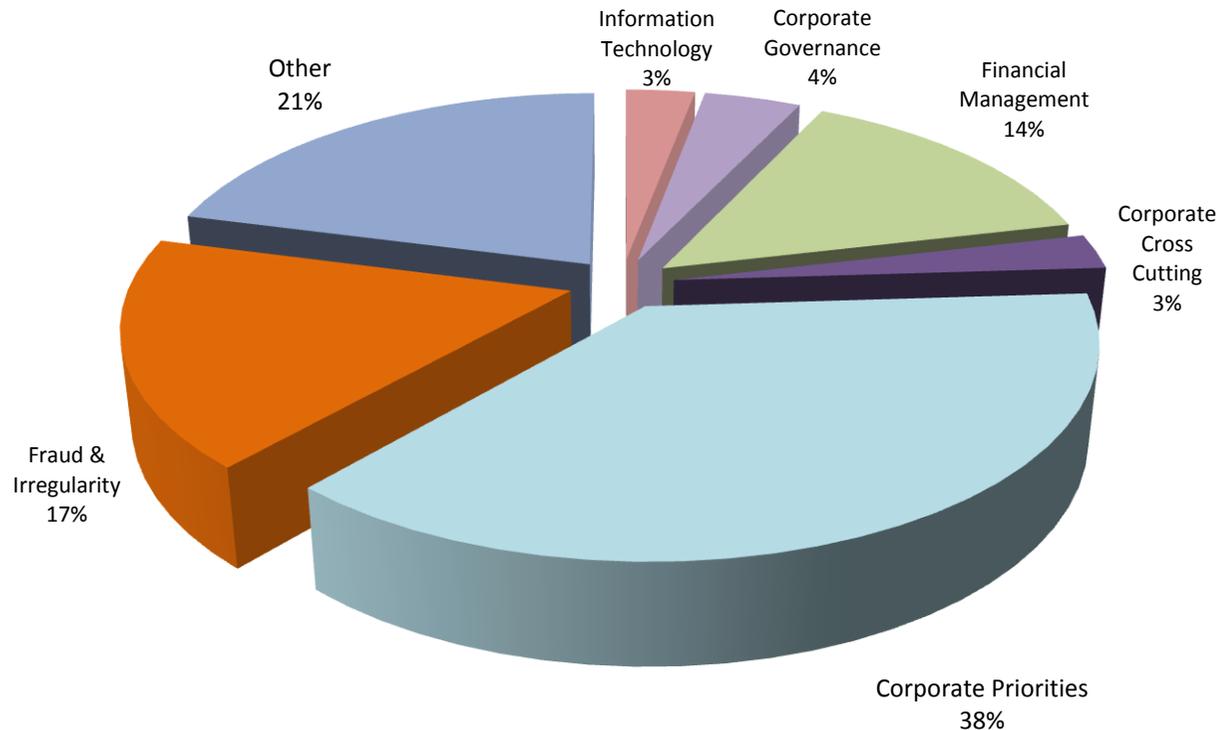
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Southampton City Council's internal control environment.

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

#### 4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2014-15 Internal audit plan, approved by the Governance Committee, 28 April 2014, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

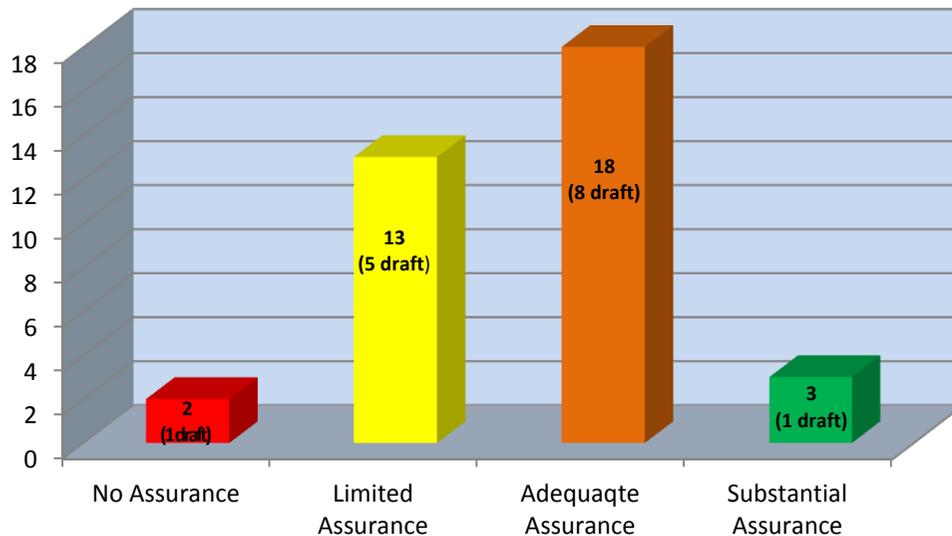
The plan has remained fluid throughout the year to maintain an effective focus.

The Southern Internal Audit Partnership delivered 1007 days across 58 review areas over the course of the year ending 31 March 2015.

The revised 2014-15 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 15 reviews, however, final reports have not yet been agreed with management;
- Fieldwork remains in progress in respect of 5 reviews (Financial Management, Treasury Management, IT Development Days, Integrated Commissioning Unit and Public Health)

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



**Substantial** - A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified;

**Adequate** - Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified;

**Limited** - Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

**No** - Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

\*17 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, assurance mapping, grant certification or investigations

## 5. Significant Issues Arising

### ***Depot – Housing Stock Control (Draft)***

The Head of Housing requested internal audit assistance in conducting a review over stock control at the Shirley Depot in light of concerns highlighted during prior irregularity investigations, the recent implementation of 'Total Mobile' and to compliment the work being undertaken by Savills (external consultants).

The control of housing stock has been subject to a significant and prolonged change programme in a move to an automated and mobile repair management system 'Total Mobile', which went live in November 2014. It was the intention that the 'Total Mobile' system would be used to control all stock movements both from the various stores located across the city and those retained within the tradesmen's vans. The audit was timed to monitor the issues arising from the introduction of 'Total Mobile' and help address any resulting gaps.

Due to inadequacies in the initial reporting system, resulting in a lack of management information attainable from the 'Total Mobile' system, and limited subsidiary controls / documentation in place we were unable to place reliance on the effective and transparent movement of goods and materials.

Our review was also asked to examine controls in place for deriving income from scrap materials, particularly value items such as metal. Review found there to be no system in place enabling potential scrap to be identified from jobs undertaken and therefore no checks could be applied to ensure materials were being returned and income from scrap maximised. Furthermore, reliance is placed on the dealers to whom the scrap metals are sold, to provide accurate 'weigh tickets' with no means of independently confirming their validity.

A detailed action plan is being developed to address issues raised from internal audit observations.

### ***Housing Office – Security***

There were a number of weaknesses observed in respect of buildings security within the housing offices visited. Additionally incomplete inventories of keys holders increased the risk of loss and reduced accountability as a result of ineffective record keeping. Insurance limits for the cash held in safes were regularly exceeded and half of the offices kept safe keys on site overnight which could invalidate any insurance claim in the event of loss.

The four offices which do not undertake their banking directly take income to the remaining two housing offices for banking however the amounts transferred are not signed over as agreed or kept in tamper proof bags, weakening the management trail and increasing the vulnerability of those staff involved in cash transfers.

## 6. Anti Fraud and Corruption

The Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image. Policies and strategies are in place setting out the Council's approach and commitment to the prevention and detection of fraud or corruption.

The Council continues to conform to the requirements of the National Fraud Initiative (NFI). The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information analysed that indicate a fraud, an error or an overpayment may have taken place, signaling the need for review and potential investigation. The Cabinet Office assumed responsibility for the National Fraud Initiative following the demise of the Audit Commission in March 2015.

As part of the 2014/15 NFI exercise the Council submitted required data sets in October 2014 receiving feedback on potential matches in February / March 2015 (as detailed below). Work will be carried out during 2015-16 to review identified 'recommended matches' for fraudulent activity.

Dataset	Recommended Matches
Housing Benefit	551
Payroll	69
Housing Tenants	26
Right to Buy	17
Blue Badge	146
Concessionary Travel	535
Residential Parking	9
Insurance	2
Personal Budgets	164
Creditors	342
VAT	61
Total	1922

In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of any allegations of fraud, corruption or improper practice. In accordance with the Local Government Transparency Code 2014 the details of internal audits involvement in counter fraud work is summarised below:

Local Government Transparency Code 2014	01.04.14 – 31.03.15
<b>Part 2 Requirements - Fraud</b>	
Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used	Nil
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	2 fte*
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	3 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	140 days*
Total number of fraud cases investigated	5**

\*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers, housing benefits etc.)

\*\*the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse* - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'

## **Fraud Grant Funding**

The DCLG have made available £16m to assist Councils in developing innovative and holistic initiatives to tackle the fight against fraud.

During 2014 local authorities were invited to submit proposals for funding that would result in real financial savings through effective counter fraud activities. A successful bid from the Southern Internal Audit Partnership resulted in funding of £72,000 being awarded to support initiatives in respect of fraud detection and prevention.

Funding acquired will contribute to the development of a generic fraud risk assessment framework to inform and educate of key fraud risks. This assessment will inform a programme of proactive fraud initiatives moving forward, targeting demonstrably high risk areas.

This will be supported by the use of data analytics to more strategically analyse higher risk areas in the identification and investigation of data giving rise to irregular activity or conflicts with other sources of information.

The legacy from funding will strengthen measures for both fraud detection and prevention through provision of a clear understanding and assessment of fraud threats and the establishment of data analytics as preventative measures to combat fraud through the real time sharing and matching of data and fraud intelligence.

## **7. Quality Assurance and Improvement**

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against ‘the Standards’ and the Local Government Application Note (LGAN) for conformance.

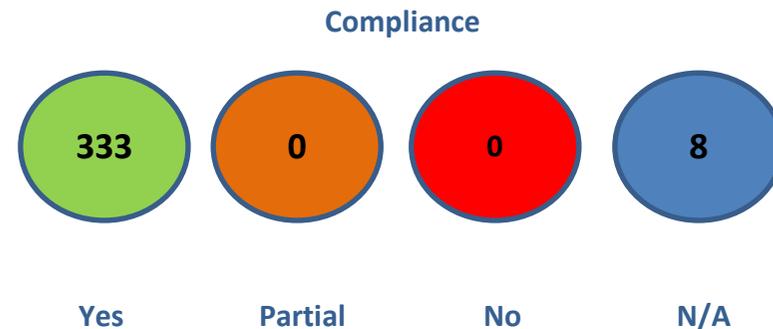
The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

The Standards stipulate that ‘internal assessments’ should be undertaken as a self-assessment or by other persons within the organisation with sufficient knowledge of internal audit processes.

During 2014 – 15 The Head of the Southern Internal Audit Partnership undertook a self-assessment against the Standards and the LGAN.

An external assessment is to be undertaken by the Institute of Internal Auditors (IIA) in September 2015. In accordance with the Internal Audit Charter, outcomes of the external assessment will be reported to Governance Committee (December 2015).



**8. Disclosure of Non-Conformance**

**‘It is my opinion that in all material respects the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’**

Whilst the Standards only require non-conformance to be disclosed when it impacts the overall scope or operation of the internal audit activity, the additional requirements for the public sector state *‘that all instances of non-conformance and progress against improvement plans must be reported in the annual report’*. The QAIP Action Plan is provided at Appendix 1.

## 9. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2014-15 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures; and
- Review and quality control of all internal audit work by professional qualified senior staff members.

## 10. Internal Audit Performance

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

Annual performance indicators			
Aspect of service	2013-14 Actual (%)		2014-15 Actual (%)
Revised plan delivered (including 2013/14 c/f)	98		92*
Positive customer responses to quality appraisal questionnaire	96		96
Compliant with the Public Sector Internal Audit Standards	Yes		Yes

\*attributable to management requests for reviews to be conducted within the later part of quarter 4

## 11. Acknowledgement

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  
Head of Southern Internal Audit Partnership  
June 2015

## Appendix 1 – Quality Assessment & Improvement Action Plan

---

**Compliance against the Public Sector Internal Audit Standards / Local Government Application Note**  
**Public Sector Internal Auditing Standards**  
**Action Plan – Not Applicable**

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
<b>3.2 - Independence and Objectivity</b>					
Does the board: e) approve decisions relating to the appointment and removal of the CAE	N/A	Such actions are not constitutionally permissible to be undertaken by the board (Local Authorities (Standing Orders) (England) Regulations 2001)	To continue to follow existing Council Standing Orders and procedures in the appointment and dismissal of the Chief Internal Auditor	-	-
Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?	N/A	There have been no known instances where an internal auditor has used information for personal gain	-	-	-
If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	N/A	There have been no known instances of real or apparent impairment of independence or objectivity.	-	-	-
If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	N/A	The Chief Internal Auditor has no operational responsibilities outside of the internal audit function.	-	-	-

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
4.1 - Managing the Internal Audit Activity					
Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?	N/A	Internal audit is not provided by an external service provider.	-	-	-
4.5 - Communicating Results					
Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:					
a) The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
b) The reason(s) for non-conformance?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
c) The impact of non-conformance on the engagement and the engagement results?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-

Opportunities for Improvement - Section briefing– 3 March 2014

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
<p><b>Communication</b></p> <p>With additional organisations joining the Partnership, the transient nature of audit staff, flexible working options and the fluidity of planning to meet the needs of the client, it is considered that current channels of communication should be enhanced to compliment changing working practices.</p>	<p>Head of Southern Internal Audit Partnership to attend ASMT monthly to capture key messages from the team</p> <p>A monthly email to be circulated to all staff with the key messages (corporate and local)</p> <p>To ensure all relevant staff are notified with any plan changes (ASMT to be copied in on email(s) due to potential impact on other workloads).</p>	<p>Head of Southern Internal Audit Partnership</p> <p>Head of Southern Internal Audit Partnership</p> <p>All of ASMT</p>	<p>Complete</p> <p>Complete</p> <p>Complete</p>
<p><b>MKI</b></p> <p>Limitations within MKI prior to the recent upgrade have required a number of workarounds questioning the effectiveness and efficiency of the system. Additionally attaining relevant management information is a cumbersome and timely process.</p>	<p>MKI are currently developing a progress report that will replace the progress control sheet. This will make the monitoring of audits for all staff much easier.</p> <p>Looking to change the hosting of MKI back to the vendor rather than internal. This will resolve the live mobile issues.</p> <p>Once the progress report has been developed, we will ask MKI to develop automated audit reports/outlines and facility to track management actions.</p>	<p>LE / MKI</p> <p>LE / MKI</p> <p>LE / MKI</p>	<p>Complete</p> <p>Complete</p> <p>AO's now automated and MKI being utilised to track management action. Automated audit reports currently under review</p>

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
	<p>Staff to be reminded on the level of scanning needed. We don't need every single document scanned.</p> <p>Should the scanner in room 241 be out of action, an alternative device is available in room 321.</p>	All staff	Complete
<p><b>Travel</b></p> <p>Clarity required with regard travel entitlements in light of the expansion of the Partnership</p>	To introduce a travel policy for the partnership	Head of Southern Internal Audit Partnership	Outstanding – to be actioned by December 2015
<p><b>Manager review</b></p> <p>Quality standards require manager and senior manager sign off of all reports with Limited and No assurance reports cleared by the Head of Partnership. Does this remain practicable in light of the extension of the partnership.</p>	Quality standards will not be compromised. To review the current reporting protocol and timescales for practicalities.	Senior Management Team	Complete
<p><b>Planning</b></p> <ul style="list-style-type: none"> <li>○ Need more scope / background reasons for inclusion in the plan</li> <li>○ Need more involvement of staff in the annual planning process</li> </ul>	This has been rectified in the 2014/15 plans.	Audit Services Management Team / Senior Management Team	Complete
<p><b>Allocation of audit</b></p> <p>Is the allocation of audit assignments effective. Are we maximising individuals knowledge and experience.</p>	Matrix working is in place across the partnership to ensure that we maintain flexibility to apportion relevant experience at all times.		

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
	<p>Not looking to develop “experts” with the notable exceptions of IT, Fraud and Procurement / Contract Management.</p> <p>Any training needs to be raised with relevant managers</p>	All staff	on-going
IT –connectivity at one satellite site remains restrictive.	Head of Southern Internal Audit Partnership to liaise with relevant S151 to effect a long term solution.	Head of Southern Internal Audit Partnership	Complete
<p><b>Auditees</b></p> <p>There are increasing incidences where the duration of audit assignments are prolonged due to client availability both in terms of fieldwork and report clearance. Significant delays in issuing reports can impact on relevance and reflect poorly on the audit service.</p>	<p>Head of Southern Internal Audit Partnership to raise with CMT’s as a general discussion about the impact of delays etc.</p> <p>Formalise an escalation policy.</p> <p>Need to ensure any delays are escalated to the relevant Audit Manager / SMT member promptly.</p> <p>Report template to include timeline</p>	<p>Head of Southern Internal Audit Partnership</p> <p>Senior Management Team</p> <p>All staff / ASMT</p> <p>To align with automated reports from MKI</p>	<p>Complete</p> <p>Complete</p> <p>Complete</p> <p>Complete</p>
<p><b>Information extraction</b></p> <p>The addition of new partners coupled with the matrix management approach introduces challenges in maintaining a working knowledge of all applications and systems across the partnership.</p>	Look at system training needs across the section and determine who needs what training. (in- house or provided elsewhere.)	ASMT	Complete

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
	<p>Identify staff with specific knowledge as contacts for key systems to provide internal training</p> <p>For sites with restricted access to systems consider including a more specific list of required reports etc. in the AO</p>	<p>Head of Southern Internal Audit Partnership</p> <p>AMs</p>	<p>Outstanding - A knowledge database is being created detailing qualifications and experience to better effect assignment of audits</p> <p>Outstanding – require a greater emphasis on requesting desired information / reports as part of the AO</p>
<p><b>Working in silos</b></p> <p>Look for opportunities for team building – socials, group work etc.</p>	<p>To ensure section briefings include more opportunities for group work.</p> <p>To arrange regular social events outside of work.</p>	<p>Deputy Head of Southern Internal Audit Partnership</p> <p>NJ</p>	<p>Complete</p> <p>on-going</p>

### Opportunities for Improvement – Staff Away Day (Celebrating Success) - Branding – September 2014

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
To acquire a SIAP email addresses to replace the existing hants.gov.uk and prevent confusion / ambiguity with partners and sold service clients regarding who we are.	To seek advice from IT to determine if a SIAP email address is a possibility and if so the costs, impacts etc. of pursuing such an option.	Head of Southern Internal Audit Partnership	Outstanding to be actioned by December 2015
To explore the potential of branded stationery / lanyards to present a sense of professionalism and identity when out on site.	Seek the cost of branded stationery and lanyards. Considered more appropriate and cost effective to acquire folders rather than branded working papers / pens etc.	Head of Southern Internal Audit Partnership	Complete
To provide a consistency in answering the telephone so partners and sold service clients are clear who they are speaking to and to reinforce the partnership brand.	All to answer to phone... <i>'good morning southern internal audit partnership x speaking'</i>	Head of Southern Internal Audit Partnership	Complete
Staff to receive regular updates highlighting partnership issues	To retain quarterly staff briefings supplemented by the Head of Southern Internal Audit Partnership issuing newsletters in between briefings should significant issues arise.	Head of Southern Internal Audit Partnership	Complete
For staff to hold and issue as necessary business cards to prospective clients or for a point of contact for existing partners / clients	The cost of producing business cards for all members of the team was considered disproportionate to the potential benefits to be gained. We will however, look to consider producing an in-house template for local printing and issue should the need arise.	Head of Southern Internal Audit Partnership	Outstanding to be actioned by September 2015

### Opportunities for Improvement – Internal Audit Surveys – March 2015

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
To acquire and enhance to use of CAATs across the partnership.	Whilst Excel spread sheets are used extensively across the partnership for the purposes of review, analysis, sampling, filtering, producing formula for test checking etc. there are no other specific CAAT's used. The successful bid for Central Government grant funding has enabled us to explore CAATs further and we will be procuring a data analytical software package to support the delivery of outcomes of that initiative and also to benefit the wider partnership through mainstream audit use. It is intended that we will acquire the 'Idea' software	Head of Southern Internal Audit Partnership	Outstanding to be actioned by September 2015
To enhance our cultural awareness of two of our existing key stakeholder partners	For the Strategic Lead for the key stakeholder partners to attend future cultural development workshops	Group Audit Manager	Complete
To better disseminate examples of good practice when undertaking audit assignments from experiences witnessed across the wider partnership.	To incorporate an 'added value' section to the standard report template to prompt managers for the relevant portfolios to think of like services provided across the wider partnership cohort and highlight any examples of exemplar practice that may benefit the audit client.	Head of Southern Internal Audit Partnership	Outstanding to be actioned by December 2015