

# Annual Internal Audit Report & Opinion

2016 - 17

Southampton City Council



**Southern Internal  
Audit Partnership**

Assurance through excellence  
and innovation

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## 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 2016 [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

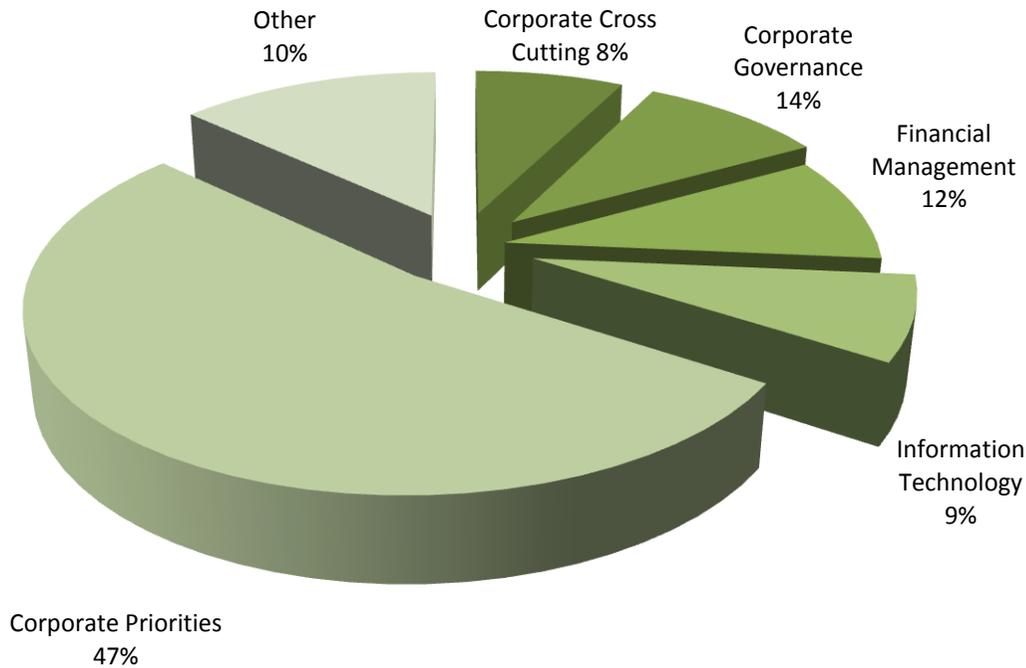
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Southampton City Council's internal control environment.

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 2016-17 Internal audit plan, approved by the Governance Committee, 12 April 2016, 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.

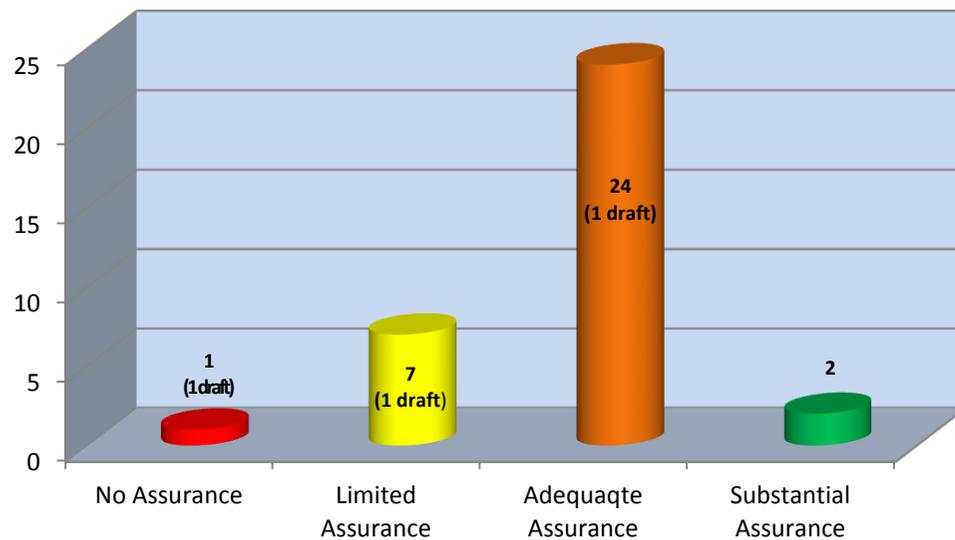
The plan has remained fluid throughout the year to maintain an effective focus.

The Southern Internal Audit Partnership provided assurance across 53 review areas over the course of the year ending 31 March 2017.

The revised 2016-17 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 3 reviews, however, final 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. 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

\*19 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, assurance mapping, grant certification, follow up or investigations

## 5. Significant Issues Arising

### *Direct Payments (Draft)*

A 'No Assurance' opinion was reported in concluding the internal audit review of Direct Payments during the year following a 'Limited Assurance' opinion in 2015-16. Significant concerns were identified across the breadth of the Direct Payments process including:

- For more than half of the records sampled no direct payment agreement had not been signed by the 'client' or 'suitable person' or recorded on PARIS;
- Where a 'suitable person' was managing a direct payment, there was no evidence to support that all within the sample tested had been assessed as appropriate and approved to manage the direct payment on behalf of the client;
- Care managers were not carrying out regular reviews to establish whether the needs of the client had changed and the direct payment remained appropriate. Of those tested over half had not received a regular annual review. Additionally there was no evidence for over half of the clients sampled that integrity checks had been undertaken on their bank account and supporting paperwork;
- There was no information recorded for 66% of direct payments reviewed to confirm they had been audited by the Payments Team (eight of which were higher value payments (over £350 p/w)). There was no record of clients who had been issued an audit letter or a response rate;
- A new interface between PARIS and Agresso, to make direct payments to client, had been introduced during the year. Testing of the direct payment actually paid to the client against the amount recorded in PARIS did not agree for 50% of records tested. Variances were also found in the amount of the client contribution recorded in PARIS to the amount deducted from the direct payment in Agresso;
- From sample testing two overpayments were made to clients in January 2017 (in excess of £30k and £1k respectively) where clients had been paid at a daily rate instead of a monthly rate. The overpayments were repeated in February despite being highlighted in January,
- Key policy and guidance documentation is overdue for review.

As a more general observation documentation was not consistently or comprehensively recorded in PARIS or was not always easy to locate. This was raised as an issue in 15-16 annual report and opinion.

**Compliance** – there was a common theme across reviews of Safeguarding – Protection and Court Teams; 0–25 Special Educational Needs & Disability (SEND); and Safeguarding Children & Young People that statutory timeframes within which proceedings and/or procedures were required to be undertaken were exceeded or where no evidence was available to provide assurance that relevant action had been taken. There is a risk that such delays may adversely impact decisions and outcomes affecting vulnerable children.

**Procurement** – there is a reported high level of non-compliance with the sub £100k procurement process which was introduced in 2014, with many service areas undertaking their own procurement directly. Where contract or frameworks exist there remained a high level of off contract spend and examples were identified where expenditure had not been appropriately aggregated and procured in line with relevant guidance and legislation.

We understand that procurement guidance to staff is currently under review and due to be relaunched later in the year supported by workshops to improve awareness and requirements.

## **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). As part of the 2016/17 NFI exercise the Council submitted required data sets in October 2016 receiving feedback on potential matches in February / March 2017. Work will continue throughout 2017-18 to review identified matches.

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	01.04.16 – 31.03.17
<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	4 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	91 days*
<b>Total number of fraud cases investigated</b>	<b>6**</b>

\*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.*

## 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.

An ‘External Quality Assessment’ of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

In considering all sources of evidence the external assessment team concluded:

It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to **all** of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

There are **no instances** across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.

In accordance with PSIAS, a further self assessment was completed in April 2017 concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

## 8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors, further substantiated through the self assessment in April 2017 that:

**‘the Southern Internal Audit Partnership conforms to: the Definition of Internal Auditing; the Code of Ethics; and the Standards’.**

There are no disclosures of Non-Conformance to report.

## 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 2016-17 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;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- Independent External Quality Assessment.

## 10. Internal Audit Performance

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

Annual performance indicators			
Aspect of service	2015-16 Actual (%)		2016-17 Actual (%)
Revised plan delivered (including 2014/15 c/f)	90		100
Positive customer responses to quality appraisal questionnaire	97		96
Compliant with the Public Sector Internal Audit Standards	Yes		Yes

## 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  
May 2017