



**SOUTHAMPTON CITY COUNCIL**  
**AUDIT COMMITTEE – ANNUAL REPORT**  
**2008/09**



**CLLR MICHAEL BALL**  
**(CHAIR)**

## INTRODUCTION

I have served on the Audit Committee since its inception at the end of 2006. I was elected chair in June 2008. One of the challenges to its successful operation has been the change to the membership following the local elections. Training has been provided to enable members to have an awareness of the committee's role and equip them with the necessary skills. I consider that the committee has a good mix of councillors with a wide range of commercial and political experience, including a number of qualified accountants. The former chair is now the vice-chair.

The role of Chair is to understand the key issues detailed in the reports and set them in context. They should seek to steer the debate to focus upon areas that are critical to the successful operation of council functions. Meetings are held quarterly during the municipal year, with the majority of the reports set out as part of the annual calendar. The core elements focus on monitoring Audit Committee recommendations, approving revised policies and reviewing the status of audit work.

The Audit Committee receives three key annual reports:

- Audit Commission: Annual Audit and Inspection Letter
- Chief Internal Auditor's Annual Report and Opinion
- Annual Governance Statement

During the course of the year the committee has paid particular focus to the key findings made by the internal and external auditors. In so doing it has been able to direct and focus attention on failings in internal controls and make recommendations for improvements and track their implementation, helping to ensure the issues receive the profile they deserve.

Areas flagged up during the year of particular note have been:

- Financial Management in Schools
- Health & Care Charging Policy for Non-Residential Care
- Partnership Agreements
- Project Management

The Council has successfully sought to embed risk management in the organisation. The review of the effectiveness of internal audit highlighted significant steps forward; indeed The Audit Commission has praised, "the raising of the status of internal audit within the organisation". There has been positive engagement with the external auditors. They conducted a review of the Strategic Services Partnership implementation and concluded "good progress has been made in improving the performance of all services delivered through the partnership".

It is evident that further work is required to improve members' systematic engagement, and help ensure that they are adequately skilled to provide effective scrutiny with the ever, increasing complexity of local government. This issue has been the subject of external assessment and a report was presented to the Standards and Governance Committee in April 2009 for consideration. In 2008/09 we saw the move to inquiry-based scrutiny, with all performance monitoring reports and

the forward plan being assessed by the Overview and Scrutiny Management Committee. The impact of these changes has yet to be assessed.

I consider that the Audit Committee has fulfilled its obligations to provide independent assurance to the Standards and Governance Committee on the adequacy of risk management, control and governance within Southampton City Council.

**Cllr Michael Ball, Chair of Audit Committee**

## **Purpose of the Report**

1. The purpose of this report is to inform the Standards and Governance Committee of the work of the Audit Committee during the 2008/09 Municipal year.

## **Background**

2. The creation of an Audit Committee was approved by the City Council in November 2006, to provide independent assurance to the Standards and Governance committee on matters of corporate governance. The Committee's role reflects guidance from CIPFA regarding best practice in the provision of effective corporate governance arrangements.
3. The compilation of an annual report on the work of the Audit Committee was recommended as a result of the committee's self-assessment against the CIPFA good practice guidance, undertaken in February 2008. This is the second annual report.

## **Membership**

4. The Committee comprises seven Members, reflecting the political proportionality of the Council. The Committee is independent of both the Executive and Scrutiny. The Members for 2008/09 were:
  - Cllr Michael Ball (Chair)
  - Cllr Stephen Barnes-Andrews
  - Cllr David Beckett
  - Cllr Sarah Bogle (Vice-Chair)
  - Cllr Edward Daunt
  - Cllr David Fuller
  - Cllr Andrew Wells
5. The Committee is supported by the Executive Director of Resources and Chief Internal Auditor. Appropriate representatives from the Audit Commission also attended all four meetings held during the year.

## **Terms of Reference**

6. The Committee's role and Terms of Reference, approved by Council, are:
  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. The Committee shall specifically have responsibility for oversight of and provision of 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 Controls Assurance statements provided by the Council's Executive Directors; and
  - The Council's strategic and operational risk registers

## **Work Programme 2008/09**

8. The Committee met on four occasions during the municipal year:
  - 25<sup>th</sup> June 2008
  - 24<sup>th</sup> September 2008
  - 11<sup>th</sup> December 2008
  - 19<sup>th</sup> March 2009
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**

- Ensuring the adequacy of the Council's risk management framework is one of the Committee's key responsibilities. To fulfil this function, the

Committee approved revisions to the Council's Risk Management Strategy and agreed that the Cabinet Member for Resources and Workforce Planning should have joint responsibility, with the Section 151 Officer, for championing risk management throughout the Council. The Committee approved an Action Plan for the delivery of the Strategy and reviewed progress against actions later in the year.

- The Council's Strategic Risk Register was also reviewed in order for the Committee to be assured that the document adequately reflects the key strategic risks facing the Council and to highlight any other significant key risks that needed to be considered

### **Internal Control**

- In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide an opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance. The Committee received the report for 2007/08 at its first meeting of the Municipal year. The Auditor's opinion was that the Council's framework was basically sound; however, some weaknesses were identified in the areas of partnership governance, programme and project management and procurement and contract management arrangements. Where weaknesses were identified, the Auditor has worked with management to agree appropriate corrective actions and a timescale for improvement.
- As part of its remit to provide independent assurance on the effectiveness of internal control procedures, the Committee reviewed and approved the draft Annual Governance Statement (AGS) for 2007/08 at its first meeting of the year and recommended formal approval to the Standards and Governance Committee. Production of the AGS is a mandatory requirement under the Accounts and Audit Regulations and the document is designed to provide an accurate representation of the corporate governance arrangements in place during the year. Progress against the AGS Action Plan, put in place to address areas where improvement was required, was received by the Committee at its December meeting.
- The Committee was briefed on the new CIPFA guidance which outlines good practice for effectively countering fraud. A review of the Council's arrangements was undertaken in the light of this guidance and the Committee approved the revised Anti Fraud and Anti Corruption Policy Statement and Strategy, and the Anti Money Laundering Policy, updated to take account of CIPFA recommendations. The Committee was also informed of the initial results of the latest data matching exercise under the National Fraud Initiative (NFI). The NFI is a data matching exercise run by the Audit Commission which matches electronic data within and between participating bodies to prevent and detect fraud.

## **Internal Audit**

- The Committee considered and approved a range of strategies and plans designed to enable the effective management of the Internal Audit function, including an update to the Internal Audit Strategy 2007-11, the Strategic Internal Audit Plan and the Annual Operational Plan. In addition, the Committee conducted its annual review of the effectiveness of the Internal Audit function and found that the system of internal audit was substantially compliant with the CIPFA Code of Practice throughout 2007/08.
- At its June meeting, the Committee approved a Schools Audit Policy, setting out proposals for a programme of cross-cutting thematic reviews using a risk based approach across a sample of the city's schools. The aim of the review programme will be to complement the FMSiS external assessment and so minimise the overall burden of inspection on schools.
- 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 Committee maintained a positive and constructive relationship with the Audit Commission during the year and received a variety of reports including:
  - The Annual Audit and Inspection Letter, presenting the results of the statutory audit of the Council's 2007/08 financial accounts and confirming the Comprehensive Performance Assessment (CPA) rating of three stars;
  - The Use of Resources Assessment which confirmed that the Council had achieved an overall score of 3, with a score of 3 for each of the five themes, which was an improvement on the 2007 results
  - The Data Quality Audit for 2007/08, which found that the Council's overall management arrangements for ensuring data quality were consistently above minimum requirements
  - The draft Annual Governance report, confirming that the Commission proposed issuing an unqualified opinion on the financial reports and an unqualified conclusion on the use of resources.
  - The annual assessment of Internal Audit which concluded that, since the Commission's initial review in 2005/06 and following revisions to the Code of Practice in 2006, the Council had made significant progress in improving its internal audit arrangements most notably, the raising of the status of internal audit within the organisation, the introduction of an audit manual, the establishment of clear terms of reference and a strategy for delivery of audit services, development of an appropriate staffing

- structure with a high proportion of qualified posts, and a fully risk-based approach to audit ,
  - A report, with detailed Action Plans, recommending the necessary measures to address weaknesses in gas servicing and voids repairs in the Housing Management service
- The Commission also carried out a review of the implementation of the Strategic Services Partnership to comment on progress in the delivery of outcomes and the effectiveness of the contract, including risk management. The Commission concluded that good progress had been made in improving services and procurement practices, and some progress in risk management, although there were still improvements to be made in forwarding the transformation agenda

### **Finance**

- The Committee received the annual Statement of Accounts and recommended to the Standards and Governance Committee that it be approved.

### **Specialist reports**

- In June 2008, management consultants PriceWaterhouseCoopers produced an independent report on how the Council had responded to the problems with its charging policy for non-residential care services. The report highlighted key issues for consideration and recommendations for implementation and included a comprehensive Action Plan.

## **Conclusion**

10. In its second full year of operation, the Audit Committee has consolidated its reputation as an effective independent and objective provider of assurance to the Standards and Governance Committee on all matters of risk and internal control. The Committee, with the professional support of Council officers and partners in the Audit Commission, has looked at a variety of substantial and important issues, making a valuable contribution to maintaining and enhancing the effective corporate governance of the Council.



## **Appendix A**

A full list of the reports received at meetings of the Audit Committee for the Municipal year 2008/09

### **25<sup>th</sup> June 2008**

- Monitoring Audit Committee Recommendations
- Chair's Annual Report on Audit Committee 2007/08
- Audit Commission: Audit and Inspection Plan Progress Report
- Statement of Accounts 2007/08
- Chief Internal Auditor's Annual Report and Opinion 2007/08
- Review of the Effectiveness of the System of Internal Audit
- Risk Management Strategy and Action Plans
- Annual Governance Statement 2007/08
- Internal Audit: Status of Work to May 2008
- Schools Audit Policy

### **24<sup>th</sup> September 2008**

- Monitoring Audit Committee Recommendations
- Independent Review: Health and Care Charging Policy for Non-Residential Care Services
- Audit Commission: Audit and Inspection Plan Progress report
- Internal Audit: Review of Internal Audit Strategy 2007-2011
- Anti Fraud and Anti Corruption – Annual Policy and Strategy Review
- Strategic Risk Register 2008/09
- National Fraud Initiative 2008/09
- Internal Audit: Status of Work to August 2008

### **11<sup>h</sup> December 2008**

- Monitoring Audit Committee Recommendations
- Risk Management Action Plan 2008/09: Status report
- Annual Governance Statement 2007/08 Action Plan Status Report
- Audit Commission: Audit and Inspection Plan Progress Report
- Internal Audit: Review of the Annual Operation Plan 2008/09
- Internal Audit: Status of Work to November 2008

### **19<sup>th</sup> March 2009**

- National Fraud Initiative 2008/09
- Annual Governance Statement 2008/09
- Internal Audit: Revised Strategic Plan 2007/08 to 2009/10
- Internal Audit: Status of Work to February 2009
- Anti Money Laundering Policy - Review
- Audit Commission: Annual Audit and Inspection Letter 2007/08
- Audit Commission: Audit and Inspection Plan Progress Report
- Monitoring Audit Committee Recommendations