

Governance Committee

Monday, 27th April, 2015
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Committee Room 1 - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Burke (Chair)
Councillor Chamberlain
Councillor Daunt
Councillor Inglis
Councillor Keogh (Vice-Chair)
Councillor Noon
Councillor O'Neill

Independent Members

Mr David Blake
Mr Geoff Wilkinson

Contacts

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PUBLIC INFORMATION

Role of the Governance Committee

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.

[02 Part 2 - Articles](#)

It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

Public Representations

At the discretion of the Chair, members of the public may address the meeting on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda

Southampton City Council's Priorities:

- .Jobs for local people
- Prevention and early intervention
- Protecting vulnerable people
- Affordable housing
- Services for all
- City pride
- A sustainable Council

Smoking policy – The Council operates a no-smoking policy in all civic buildings.

Mobile Telephones:- Please switch your mobile telephones to silent whilst in the meeting

Use of Social Media:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting.

Access – Access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

Fire Procedure – in the event of a fire or other emergency a continuous alarm will sound and you will be advised by Council officers what action to take.

Dates of Meetings: Municipal Year 2014/15

2014	2015
14 July	9 February
15 September	27 April
15 December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Governance Committee are contained in Part 3 of the Council's Constitution.

[03 - Part 3 - Responsibility for Functions](#)

Rules of Procedure

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

Business to be discussed

Only those items listed on the attached agenda may be considered at this meeting.

Quorum

The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

DISCLOSURE OF INTERESTS

Members are required to disclose, in accordance with the Members' Code of Conduct, **both** the existence **and** nature of any "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PECUNIARY INTERESTS

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

- (i) Any employment, office, trade, profession or vocation carried on for profit or gain.
- (ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

- a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
- b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

Agendas and papers are now available via the Council's Website

1 APOLOGIES

To receive any apologies.

2 DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

3 STATEMENT FROM THE CHAIR

4 MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)

(Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 9th February 2015 and to deal with any matters arising, attached.

5 ANNUAL REVIEW OF THE CONSTITUTION

(Pages 3 - 8)

Report of the Head of Legal and Democratic Services reviewing and updating the Constitution, attached.

6 RISK MANAGEMENT STRATEGY 2015-16 AND ANNUAL ACTION PLAN

(Pages 9 - 36)

Report of the Chief Financial Officer seeking approval of the Risk Management Strategy 2015-16 and the Annual Action Plan, attached.

7 EXTERNAL AUDIT PLAN YEAR ENDING 31 MARCH 2015

(Pages 37 - 58)

Report of the Chief Internal Auditor presenting the External Auditor's Annual Plan setting out the how they will carry out their responsibilities as Southampton City Council's auditors, attached.

8 INTERNAL AUDIT CHARTER 2015-16

(Pages 59 - 68)

Report of the Chief Internal Auditor seeking approval annual Internal Audit Charter, attached.

9 INTERNAL AUDIT PLAN 2015-16

(Pages 69 - 76)

Report of the Chief Internal Auditor setting out the Internal Audit Plan for 2015 / 2016, attached.

10 INTERNAL AUDIT PROGRESS REPORT - MARCH 2015

(Pages 77 - 96)

Report of the Chief Internal Auditor detailing the activities of internal audit for the period to March 2015, attached.

Friday, 17 April 2015

Head of Legal and Democratic Services

GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON MONDAY, 9 FEBRUARY 2015

Present:

Members of the Council

Councillors Daunt, Keogh (Vice-Chair), Noon, O'Neill and Parnell

Independent Members

Mr David Blake and Mr Geoff Wilkinson

Apologies

Councillors Burke, Chamberlain and Inglis

COUNCILLOR KEOGH IN THE CHAIR

27. **APOLOGIES**

Apologies were received from Councillors Burke and Chamberlain. It was noted that following receipt of the temporary resignation of Councillor Inglis from the Panel, the Head of Legal and Democratic Services, acting under delegated powers, had appointed Councillor Parnell to replace him for the purposes of this meeting.

28. **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

RESOLVED: that the minutes for the Committee meeting on 15 December 2014 be approved and signed as a correct record.

29. **ANNUAL GOVERNANCE STATEMENT**

The Committee considered the report of the Chief Financial Officer regarding the Annual Governance Statement 2014-15 and the Action Plan for 2013-14.

RESOLVED that:-

- (i) the assurance gathering process to support the development of the 2014-15 Annual Governance Statement be noted and approved; and
- (ii) the Annual Governance Statement 2013-14 Action Plan be noted.

30. **TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2015/16 TO 2017/18**

The Committee considered the report of the Chief Financial Officer regarding treasury management activity and proposals for cash flow, investment and borrowing for the following year.

RESOLVED that:-

- (i) the Treasury Management strategy for 2015/16 as outlined in the report be endorsed;

- (ii) following recommendations in the Capital Update report to Council on 11 February 2015, the possible need to recalculate the Prudential indicators be noted; and
- (iii) following the finalisation of the capital and revenue budgets report due at Council, the possible need to make changes be noted.

31. **INTERNAL AUDIT PROGRESS REPORT - DECEMBER 2014**

The Committee received and noted the report of the Chief Internal Auditor regarding internal audit progress to the period December 2014.

32. **EXTERNAL AUDIT - CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2013/14**

The Committee received and noted the report of the Chief Internal Auditor regarding the External Auditor's annual report on the Certification of Claims and Returns 2013/14.

33. **LOCALISM ACT 2011 - APPOINTMENT OF DESIGNATED INDEPENDENT PERSON (S) AND GOVERNANCE COMMITTEE INDEPENDENT MEMBERS**

The Committee considered the report of the Head of Legal and Democratic Services regarding the appointment of Designated Independent Person(s) and Governance Committee Independent Members.

RESOLVED that the following Recommendations be made to Council:-

- (i) one Designated Independent Person as required under S.28(7) Localism Act 2011 be appointed from 1 July 2015 for a term of 3 years;
- (ii) the two independent member appointments to the Governance Committee cease on 20 May 2015 and it be noted that the appointment of independent members will end;
- (iii) the current independent members, David Blake and Geoff Wilkinson be thanked for their work during the past three years; the Head of Legal and Democratic Services be authorised to carry out all actions to give effect to this resolution.

DECISION-MAKER: GOVERNANCE COMMITTEE
COUNCIL

SUBJECT: ANNUAL REVIEW OF THE CONSTITUTION

DATE OF DECISION: 27 APRIL 2015 (GOVERNANCE COMMITTEE)
20 MAY 2015 (COUNCIL)

REPORT OF: HEAD OF LEGAL AND DEMOCRATIC SERVICES

STATEMENT OF CONFIDENTIALITY

None

BRIEF SUMMARY

This report sets out the annual review of the Constitution. This will be considered and discussed by Governance Committee on 27th April 2015. The recommendations to both the Governance Committee and Council are included below.

RECOMMENDATIONS:

Governance Committee

- (i) To consider and recommend the changes to the Constitution to Council for adoption

Council

- (i) to agree the changes to the Constitution and associated support arrangements as set out in this report;
- (ii) to authorise the Head of Legal and Democratic Services to finalise the arrangements as approved by Full Council and make any further consequential or minor changes arising from the decision of Full Council;
- (iii) to approve the City Council's Constitution, as amended, including the Officer Scheme of Delegation for the municipal year 2015/16;
- (iv) to delegate to the Head of Strategic HR the operational requirements to comply with the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015 as referred to in the revised Officer Employment Procedure Rules
- (v) To delegate authority to the Head of Legal & Democratic Services, following consultation with the Director, Place and Cabinet Member for Environment & Transport, to determine a revised local threshold for parking petitions and amend the Council Petition Scheme accordingly.

REASONS FOR REPORT RECOMMENDATIONS

1. It is appropriate as a core tenet of good governance for the Council to keep its Constitution under regular review and to amend it, both to reflect experience and changing circumstances.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. The Council has previously resolved to review its Constitution annually. Therefore, it is appropriate that this report is considered by Members. There are a range of recommendations set out within the report, none of which are substantial changes. Members have a range of options about various changes not least of which is to reject some or all of them.

DETAIL (Including consultation carried out)

3. This report will be initially considered by Governance Committee on 27th April 2015. Any additional recommendations will be updated by the Chair of the Governance Committee at Council.
4. The Constitution of the Council describes the way in which the Council conducts its business; it is required by law. It contains not only the Articles of the Constitution, but also the various rules and procedures for decision-making, access to information, Overview and Scrutiny, the Codes of Conduct, the Officer / Member Protocol, as well as other specific rules relating to contracts and finance.
5. The Constitution forms the cornerstone of effective corporate governance. Whilst Southampton City Council's constitutional arrangements continue to be recognised as being of a high standard, Full Council agreed that it would on an annual basis robustly review the Constitution and its operation. The purpose of this report is to bring forward proposed changes to the Constitution as detailed below, these having been considered by Governance Committee with a view to build upon the constitutional arrangements for the Council. The main thrust is to try to streamline procedures where possible, remove the need for some matters to come to Cabinet or Council for decision where they do so only on financial grounds and where possible avoid bureaucracy.

Revisions to committee arrangements

6. In last year's report reference was made to possible changes to the Employment and Appeals Panel. This work remains ongoing but remains as a matter "in progress" due to the negotiations as part of the revised Pay and Allowances project. There remains a strong case for a review of the Panel. It is not a lawful requirement although some functions will still be required but the Chief Officer Employment Panel and the Employment and Appeals Panel should be reviewed to ensure they are effective and efficient in their operation.
7. However, this can only proceed at the conclusion of the Council's current negotiations on terms and conditions and is currently being discussed with union colleagues. A further report will be brought to Council in due course.

Planning And Rights of Way Panel

8. Last year the Panel was moved to an evening slot and business split so matters were broadly dealt with on an east and west basis and fortnightly. Whilst the trial has worked well the doubling of meetings has put an enormous strain on officers in supporting the new timetable and accordingly it is proposed to revise the timetable to a three weekly cycle. It is not believed that this will impact on decision making timescales.

Licensing Committee

9. Traditionally the Licensing Committee and sub committees determining applications and hearing reviews have met in the day time, usually at 9.30am. This has caused issues with the availability of members and accordingly it is proposed to move most meetings to 6:00 pm. Some contentious meetings can be day-long and it will, therefore, still be necessary to have day time meetings, on a case by case basis. This will have an impact on day time availability of officers who support the function, ie Legal Services, Democratic Services and Licensing as such evening work will become part of their core job. The new arrangements will be reviewed after six months.

Health and Well-Being Board and Health

10. It has been suggested that there is some duplication of work undertaken by the Health Overview and Scrutiny Panel and the Health and Well-Being Board and therefore a review should be undertaken to clarify the relationship between the Health & Wellbeing Board and other Council committees, partnerships and boards including those that are required by statute or other legal powers (e.g. OSMC, s175 board for the Better Care Fund, Local Safeguarding Adults Board, Local Children's Safeguarding Board) together with any implications for the exercise of the Council's scrutiny functions in respect of health. It is anticipated that the review would be completed in six months and a further report would be made to Council and or Cabinet as appropriate
11. In the interim, the Clinical Commissioning Group has issued guidance for the 2015/16 Quality Premiums which requires decisions to be made by the Health and Well-Being Board. In order to deal with these decisions quickly it is suggested that the Terms of Reference be amended to make a delegation to either the Director, People or Director of Public Health to state:

In cases where Health and Wellbeing Board authorisation is required, but there is no scheduled Board meeting prior to the required deadline, authority to sign off on behalf of the Health and Wellbeing Board, following consultation with the Chair and Vice-Chair.

Financial Procedure Rules

12. The Financial Procedure Rules have been updated to reflect the new Medium Term Financial Strategy and Capital Strategy adopted by Council
13. Again, copies of the FPRs have not been printed due to their size but are available online.

Officer Employment Procedure Rules

14. The Government has very recently introduced revised secondary legislation to remove the statutory protections afforded to the Head of Paid Service, Monitoring Officer and Chief Financial Officer. The revised Standing Order Regulations come into force on 11th May 2015. The disciplinary process is now localised and it removes the need for a Designated Independent Person (DIP) to investigate issues before decision by Full Council. However, there is a new requirement to seek the views, advice and recommendations of an independent panel including the DIP appointed in relation to member conduct matters before any decision is made. The Officer Employment Procedure Rules have been revised to reflect the new statutory requirements.

Council Petition Scheme

15. Revised guidance on the steps necessary to comply with the Traffic Management duty in accordance with the Traffic Management Act 2004 has been issued in relation to the operation of petition schemes as they relate to parking schemes. The Council is satisfied that the current Petition Scheme is compliant and fit for purpose in relation to the revised guidance but would merit inclusion of a revised 'local' threshold for petitions specifically relating to parking schemes affecting specific roads or neighbourhoods (as opposed to City wide proposals). Further work is required to establish the most appropriate local threshold to include in the scheme (for example as a percentage of residents or business located in the directly affected area) and it is therefore

proposed to delegate authority to the Head of Legal & Democratic Services, following consultation with the Director, Place and Cabinet Member for Environment & Transport, to determine a revised local threshold for parking petitions and implement accordingly.

RESOURCE IMPLICATIONS

16. None

Property/Other

17. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

18. The Executive Arrangements and Constitution are required under the Local Government Act 2000 (as amended) and the Localism Act 2011.

Other Legal Implications:

19. None.

POLICY FRAMEWORK IMPLICATIONS

20. None.

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KEY DECISION? Yes/No n/a

WARDS/COMMUNITIES AFFECTED:	None
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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

Note: the appendices to the report are listed below are available online and a hard copy will be available in Members rooms

1.	Part 2 - Articles
2.	Part 3 – Responsibility for Functions
3.	Part 4 – Council Procedure Rules
4.	Part 4 – Access to Information Procedure Rules
5.	Part 4 – Financial Procedure Rules
6.	Part 4 – Officer Employment Procedure Rules
7.	Part 5 – Monitoring Officer Protocol
8.	Part 8 - Proper Officers
9.	Part 9 - Definitions
10.	Part 10 – Officer Scheme of Delegation
11.	Part 11 – Petition Scheme

Documents In Members' Rooms

Revised Officer Scheme of Delegation

Revised Financial Procedure Rules

Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	No
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Other Background Documents

Integrated Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	None.	
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thereby enabling opportunities to be exploited or action to be taken to mitigate or manage risk to an acceptable level.

4. The Accounts and Audit (England) Regulations 2011 also state that the Council is responsible for ensuring that “the relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes arrangements for the management of risk”.
5. Risk management is also a key component of the council’s overall corporate governance arrangements, and is recognised as such in the CIPFA/SOLACE Delivering Good Governance in Local Government Framework and associated guidance.
6. The Risk Management Strategy 2015-16 (Appendix 1) has been reviewed and updated taking in account good practice and changes in organisational structure. It is recognised that further changes in both organisational structures and business processes will take place as the New Operating Model is implemented and this will need to be reflected in the Strategy going forward.
7. The Risk Management Action Plan 2015-16 (Appendix 2) summarises the range of actions considered necessary to ensure that existing good practice is maintained and/or arrangements are further developed as appropriate. The target dates are indicative noting that the plan needs to be flexible in order to be able to respond to other priorities should they arise during the period.
8. The Risk Management Actions: Status Report 2014-15 (Appendix 3) provides an update in respect of the actions for this period.

RESOURCE IMPLICATIONS

Capital/Revenue

9. None

Property/Other

10. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

11. The Accounts and Audit (England) Regulations 2011 require the Council to adopt Good Governance arrangements in respect of the discharge of its functions. The above arrangements are intended to meet those responsibilities.

Other Legal Implications:

12. None

POLICY FRAMEWORK IMPLICATIONS

13. None

KEY DECISION? No
WARDS/COMMUNITIES AFFECTED: N/A

SUPPORTING DOCUMENTATION

Appendices

1. Risk Management Strategy 2015-16
2. Risk Management Action Plan 2015-16
3. Risk Management Actions: Status Report 2014-15

Documents In Members' Rooms

1. N/A

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out. No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1. N/A	

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**RISK MANAGEMENT
STRATEGY
2015-16**

DRAFT

April 2015



CONTENTS

- 1. Introduction**
- 2. What is risk management?**
- 3. Risk Management Policy Statement**
- 4. Risk Management process**
- 5. Roles and responsibilities**
- 6. Integration with other processes**
- 7. Communication**
- 8. Reporting**
- 9. Review**

Appendix 1 - Glossary of common terms used in relation to risk management

Appendix 2 - Risk Assessment and Risk Matrix

Appendix 3 - Risk Register Template

Appendix 4 - Risk Financing Strategy

1. Introduction

- 1.0 This strategy has been developed in line with published good practice* and provides an overview of the operating framework, arrangements and responsibilities for managing risk within the council. The strategy is relevant to Directors, Senior Managers and Managers as 'risk owners' and the Governance Committee in respect of their responsibility for overseeing the council's risk management arrangements.

2. What is risk management?

- 2.0 Risk and risk management may be defined as follows*:

- **Risk** - 'the effect of uncertainty on objectives'.
- **Risk Management** - 'a coordinated set of activities and methods that is used to direct an organization and to control the many risks that can affect its ability to achieve objectives'.

Source ISO 31000 'Risk Management – Principles and Guidelines'.

- 2.1 Risk management is an essential part of good governance within any organisation and is a key component of the council's overall governance arrangements. It provides a framework and process that enables an organisation to manage uncertainty in a systematic, consistent and efficient way. It supports informed decision making thereby enabling opportunities to be exploited, or action to be taken to mitigate or manage risk to an acceptable level.

- 2.2 The continued and ongoing pressure on public sector budgets means that public service organisations are increasingly compelled to have more of an appetite for risk, reflecting that they 'cannot do everything' and face 'hard choices'. Effective management of risk is essential in supporting a 'culture of innovation' and moving from a 'risk averse' to a more 'risk aware' approach.

- 2.3 The Accounts and Audit (England) Regulations 2011 also state that the council is responsible for ensuring that "the relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk".

- 2.4 The council's risk management function is provided by Risk and Insurance Services within the Finance & IT Service.

* including 'ISO 31000 Risk Management – Principles and Guidelines' and 'A Structured Approach to Enterprise Risk Management' issued by the Institute of Risk Management, the Association of Insurance and Risk Managers and the Association of Local Authority Risk Managers.

3. Risk Management Policy Statement

The council recognises the need to identify and understand its' key business risks and is committed to ensuring that appropriate arrangements are in place to enable informed risk decision taking, recognising the need to optimise the balance between risk and reward.

Risk management is an essential part of good management and is a key component of the council's overall corporate governance arrangements. It is recognised that, in order to be effective, the approach to managing risk needs to be structured and consistent and operate at both strategic and operational levels within the organisation. It is also recognised that risks should be aligned with key priorities and outcomes and that actions should be proportionate to the level of risk.

In seeking to ensure the effective management of key risks the council will develop policies and procedures that are intended to:

- *Promote a consistent and clear approach in terms of how risk should be treated and managed;*
- *Raise the profile and understanding of risk management at all levels throughout the organisation including members;*
- *Support officers and members in terms of taking informed risk decisions;*
- *Reflect good practice which is aligned with the council's approach to corporate governance.*

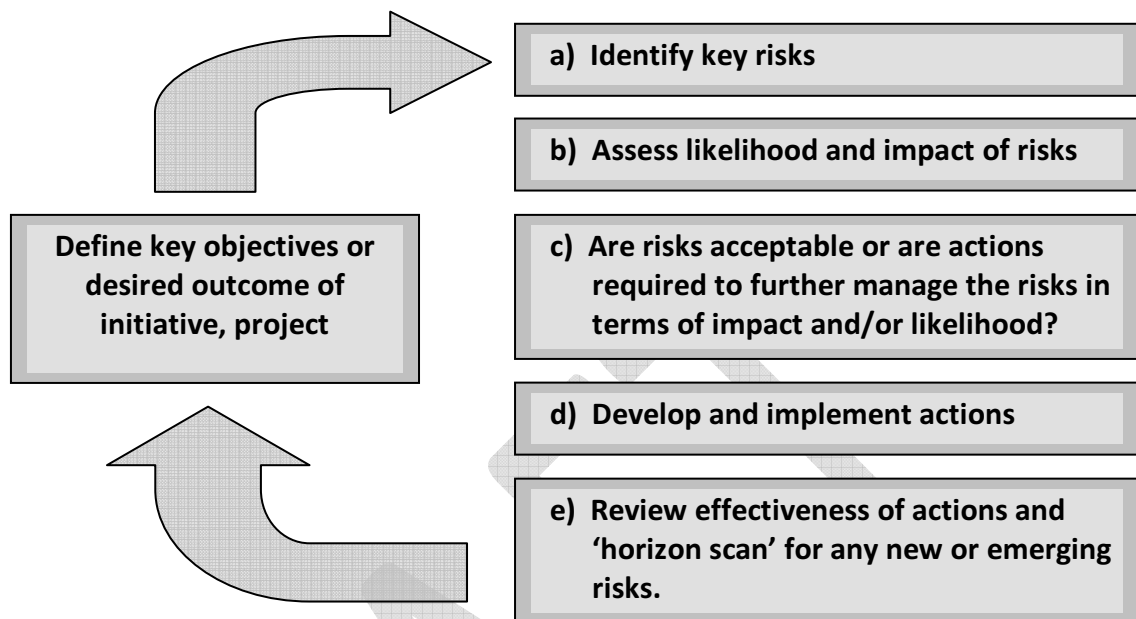
4. Risk Management Process

4.0 In order to ensure that risk is managed on a consistent basis there needs to be a standard methodology or model setting out the key principles. This standard model can then be adapted as necessary in order to reflect the approach that is most appropriate in the circumstances.

4.1 An important part of the process is to 'identify the key risks' – "what (risks) need to managed in order achieve the required outcomes of the project, service or activity"? The foregoing recognises that the achievement, or otherwise, of key objectives or outcomes may depend upon:-

- the council doing certain things and not doing others;
- the occurrence of events, both internal and external, that could affect the council, and
- the circumstances in which the organisation finds itself.

4.2 The standard risk management methodology adopted by the council is as follows:



- a) What could prevent the organisation, service, project or programme from delivering its key objectives and required outcomes? Is 'success' subject to key dependencies or assumptions? Have you considered the "what if" scenario? The identification of key risks may either be via a group exercise or individual contribution however there should be consensus on what the key risks are. It may be helpful for each risk to be considered in terms of 'event – cause – consequence'. Typically risks are articulated using the following terms "Loss of....., Failure to....., Lack of..... etc".
- b) Each risk should then be considered in terms of how likely it is to occur and, if it did, what the potential impact might be? The 'risk scores' may then be plotted on a 'Risk Matrix' (Appendix 2) which can be used to highlight the most significant risks and/or illustrate how risks compare with, or relate to, each other. In most cases the focus will inevitably be on the highest risks i.e. those that pose the greatest threat.
- c) The aim is to ensure that that the decision maker, project manager, board, manager etc is able to make an informed decision as to whether a particular risk can, or should, be accepted noting the 'likelihood and impact'. 'Risk appetite' is likely to be informed by a review of any existing controls/mitigating actions and will also be influenced by the expected 'reward' or outcome.
- d) If further controls or mitigating actions are required, in order to manage the risk to an acceptable level (e.g. by reducing the likelihood or impact, or both) then they should be identified and formally recorded with responsibility for action clearly identified (see Appendix 3).

- e) The agreed actions to manage the risk should be subject to periodic review to ensure that they are either in place or being progressed satisfactorily. In addition, the review will provide an opportunity to consider whether there are any new or emerging issues that may impact on the risk and/or any new risks that need to be considered.

5. Roles and responsibilities

5.0 All employees, members and those who act on behalf of the council have a role to play in the effective management of risk. The principal roles and responsibilities are summarised below:-

Individual/Group	Role/Responsibility
Members	<ul style="list-style-type: none"> To have an understanding of the key principles of risk management;
Cabinet Members (including the Cabinet Member with responsibility for 'Leading on Risk Management'.	<ul style="list-style-type: none"> To provide a 'Lead' in terms of influencing strategy and overall approach; To ensure that there is an appropriate consideration of risk in relation to the decision making process; and To be aware of the council's strategic risks and those relating to their respective portfolios.
Governance Committee	<ul style="list-style-type: none"> To provide independent assurance 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; and To be satisfied and provide assurance 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.
Council Management Team	<ul style="list-style-type: none"> To oversee the corporate approach to managing risk and to determine and agree the council's overall risk appetite; To identify and agree the council's key strategic risks and to facilitate development of appropriate action plans to manage the risks; To periodically review (at least three times per annum) the councils key risks; To support and monitor the implementation and ongoing processes for embedding risk management throughout the council.

Individual/Group	Role/Responsibility
<p>Directors / Directorate Management Teams</p>	<ul style="list-style-type: none"> • To support the council’s risk management strategy; • To ensure that a co-ordinated and consistent approach is taken in respect of the identification and management of risk; • To ensure that risks are appropriately managed and to have in place appropriate review and monitoring arrangements; • To ensure that robust business continuity plans are in place covering key service areas and that the plans are reviewed and tested within agreed timescales; and • To provide evidence, based on sources of internal and external assurance, to support preparation of the Annual Governance Statement.
<p>Senior Managers</p>	<ul style="list-style-type: none"> • To manage risk effectively in their service areas and in accordance with the agreed risk appetite or tolerance.
<p>Risk and Assurance Manager Risk and Insurance Services</p>	<ul style="list-style-type: none"> • To facilitate the continuing development of the council’s risk management arrangements including developing appropriate guidance and information; • To support directorates in the management of operational and strategic risk; • To facilitate and support the Council Management Team in respect of the periodic review of the council’s key risks; • To review and report upon the adequacy and effectiveness of the council’s risk management arrangements; • To arrange appropriate risk financing measures and provide advice and guidance on the extent of insurance or self insurance arrangements; • Where appropriate, to arrange the placement of cover with insurers including the negotiation of premium rates and policy terms; and • To provide and manage a claims handling service to process claims made by directorates and by members of the public.
<p>Employees</p>	<ul style="list-style-type: none"> • To manage risk in the course of undertaking their duties;
<p>Internal Audit</p>	<ul style="list-style-type: none"> • To audit, via a risk based audit programme, the risk and internal control processes across the council. • To co-ordinate fraud and irregularity investigations including assessing the effectiveness of fraud prevention controls and detection processes; and • To provide assurance on the effectiveness of internal control processes.

6. Integration with other processes

6.0 Business planning / Performance Management

Business planning is concerned with identifying key priorities and objectives for the forthcoming period. The output from any such exercise can be used to inform and assist managers in identifying those key risks that need to be managed in order to support delivery of the key business objectives.

6.1 Decision making

The need to identify and communicate key risks features in the Decision Standards Guidance document which instructs report authors to 'consider whether there are any significant risks associated with the idea / proposal and how these might need to be presented'. The 'Detail' section of the corporate report template can also be used to highlight any key risks associated with the decision and/or to provide assurance that appropriate actions or controls are in place to manage the risk. In addition, the template for reports to the Council Management Team also includes a 'key risks' section.

6.2 Partnership Working

A 'Partnership Working in Southampton' guide forms part of the Council's Constitution. The guide, which is intended to ensure that sound governance arrangements are in place, provides 'signposts to good practice' and makes explicit reference to the need to "think ahead and anticipate any potential problems or barriers to progress".

6.3 Project Management

The need to identify and manage risk features throughout the various Gateways within the PM Connect Project Management Methodology. Specific guidance on the effective management of key risks is provided for Project Managers, Sponsors and Boards.

6.4 Corporate Governance

Defined as 'how local government bodies ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities'.

Source: Chartered Institute of Public Finance & Accounts and Society of Local Authority Chief Executives – Delivering Good Governance in Local Government 2012.

6.5 Annual Governance Statement

The Accounts and Audit (England) Regulations 2011 require that local authorities publish an 'Annual Governance Statement' ("AGS") with their annual Statement of Accounts. The AGS is a key corporate document that sets out the council's overall corporate governance framework and highlights any significant gaps or areas where improvement is required. Risk Management is an integral part of the overall

governance framework in terms of supporting informed and transparent decision-making and accountability to stakeholders.

6.6 Fraud Risk Management

The management of fraud risk is the responsibility of everyone within the organisation and internal control systems are intended to minimise the opportunity for fraud or misappropriation of assets. Whistleblowing (Duty to Act) arrangements are in place together with an Anti Fraud and Anti Corruption Policy and Strategy.

7. Communication

7.0 The Risk Management Strategy and other associated guidance and template documents are made available on the intranet. The site is updated on at least an annual basis by the Risk and Assurance Manager.

8. Reporting

8.0 The Risk & Assurance Manager shall, via the Chief Financial Officer, present an annual report to the Governance Committee outlining the planned activities for the forthcoming period in addition to providing a mid-term update.

9. Review

9.0 This document will be reviewed annually by the council's Risk and Assurance Manager and any significant amendments reported to the Governance Committee for approval.

Glossary of common terms used in relation to risk management

Assessing risks	<i>The evaluation of risk with regard to the impact if the risk is realised and the likelihood of the risk being realised.</i>
Consequence	<i>The outcome of an event.</i>
Contingency	<i>An action or arrangement that can be put into place to minimise the impact of a risk if it should occur.</i>
Control	<i>Any action, procedure or operation undertaken to either contain a risk to an acceptable level, or to reduce the likelihood.</i>
Corporate Governance	<i>The system by which an organisation is directed and controlled.</i>
Exposure	<i>The consequences, as a combination of impact and likelihood, which may be experienced by the organisation if a specific risk is realised.</i>
Fraud	<i>The intentional distortion of financial statements or other records by persons internal or external to the organisation, which is carried out to conceal the misappropriation of assets or otherwise for gain.</i>
Governance Committee	<i>The Member body responsible for ensuring the adequacy of the risk management framework, internal control and reporting environment including (but not limited to) the reliability of the financial reporting process and the Annual Governance Statement.</i>
Horizon Scanning	<i>Systematic activity designed to identify, as early as possible, indicators of changes in risk.</i>
Identifying Risks	<i>The process by which events that could affect the achievement of key objectives, are drawn out, described and recorded.</i>
Impact	<i>The effect that a risk event would have if it occurs.</i>
Inherent Risk	<i>The level of risk before any action has been taken to manage it.</i>
Internal Control	<i>The policies, procedures, practices and organisational structures designed to provide reasonable assurance that business objectives will be achieved and that undesired events will be prevented or detected and corrected.</i>
Likelihood	<i>The probability that an identified risk event will occur.</i>
Operational Risk	<i>Risks concerned with day-to-day operational issues that an organisation might face as it delivers its services.</i>

Residual Risk	<i>The level of risk remaining after action has been taken to manage it.</i>
Risk	<i>The effect of uncertainty on objectives.</i>
Risk Appetite/Tolerance	<i>The amount of risk that the council is prepared to accept, tolerate or be exposed to at any point in time.</i>
Risk Assurance Report	<i>The risk reporting tool adopted by the council which captures information about each risk in terms of how it should be managed and the effectiveness of the controls in place (via an assurance rating).</i>
Risk Financing	<i>The mechanisms (e.g. insurance programmes) for funding the financial consequences of risk.</i>
Risk Management	<i>The culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives.</i>
Risk Owner	<i>The person with responsibility for ensuring that the controls identified in the RMAPs are adequate and appropriate and that the actions are being progressed.</i>
Risk Matrix	<i>The number of levels of likelihood and impact against which to measure the risk and to record the risk appetite.</i>
Risk Strategy	<i>The overall organisational approach to risk management.</i>
Strategic risk	<i>Risks concerned with the high level strategic aims and objectives of the organisation.</i>

Risk Scoring and Matrix

LIKELIHOOD	Almost Certain	A					
	Likely	B					
	Possible	C					
	Unlikely	D					
	Very Unlikely	E					
RISK RATING MATRIX			5	4	3	2	1
			Minor	Moderate	Significant	Major	Extreme
			IMPACT				

LIKELIHOOD (Probability)	
A - Almost Certain > 95%	Highly likely to occur
B - Likely ↑	Will probably occur
C - Possible 50%	Might occur
D - Unlikely ↓	Could occur but unlikely
E - Very Unlikely < 5%	May only occur in exceptional circumstances

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	IMPACT (Consequence)				
	5 - Minor	4 - Moderate	3 - Significant	2 - Major	1 - Extreme
Service delivery / key priorities	No noticeable effect	Some temporary disruption to a single service area/ delay in delivery of one of the council's objectives	Regular disruption to one or more services/ a number of corporate objectives would be delayed or not delivered	Severe service disruption on a directorate level / many corporate priorities delayed or not delivered	Unable to deliver most priorities / statutory duties not delivered
Financial Impact	Loss or loss of income < £10k	Loss or loss of income £10k < £500k	Loss or loss of income £500k < £5m	Loss or loss of income £5m < £10m	Loss or loss of income >£10m
Reputation	Internal review	Internal scrutiny required to prevent escalation	Local media interest. Scrutiny by external committee or body	Intense public, and media scrutiny	Public Inquiry or adverse national media attention

Risk Assurance Report - Template

Appendix 3

RISK No: R01	Version No:	Last updated:	KEY RISK AREA	
RISK DESCRIPTION	EXPECTED KEY CONTROLS	SOURCE(S) OF ASSURANCE	ASSURANCE LEVEL	
			Q3	Q4
				Comment Q4
	1		1	1
			3	2
	2		4	3
			3	3
	3		2	2
			3	3
	4		3	2
			2	2
1 - Substantial assurance	2 - Adequate assurance	3 - Limited assurance	4 - No assurance	
There is clear evidence of a robust and effective process, framework or activity that is operating effectively.	There is evidence of a sound process or framework in place however there are some inconsistencies or gaps	Evidence of inconsistent application and/or critical weakness(es) within the policy, framework or activity	There is no, or insufficient, evidence of an appropriate policy, framework or activity.	

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RISK FINANCING STRATEGY

April 2015

CONTENTS

1. Introduction
2. Definitions
3. Structure, Resources and Accountability
4. Process and procedures
5. Alternative Risk Transfer
6. Communication and Consultation
7. Benchmarking
8. Review

1. Introduction

- 1.0 The Risk Financing Strategy is a key component of the council's Risk Management Strategy and sets out the council's overall approach to risk financing. It will be of particular relevance to the Governance Committee in respect of its responsibility for overseeing the council's risk management arrangements.

2. Definitions

- 2.0 **Risk Financing** - "Utilisation of source(s) of funds to pay for insurable losses. Source(s) of funds can be classified as:

Internal - a risk retention arrangement is established to use funds from within the organisation to pay for losses;

External - a risk transfer arrangement (generally through the purchase of insurance) is established to provide access to funds to pay for losses".

- 2.1 Although this document refers primarily to self insurance [risk retention] and external insurance cover, in some cases other risk financing options may be available and these will be referred to as appropriate.

3. Structure, Resources and Accountability

- 3.0 The council's Financial Procedure Rules state that the Chief Financial Officer has responsibility 'to advise the Cabinet on proper insurance cover where appropriate, and effect corporate insurance cover, through external insurance and internal funding'.
- 3.1 The Risk and Assurance Manager reports to the Chief Financial Officer on all strategic risk financing issues and is responsible for ensuring that the adopted strategy is implemented and is subject to annual review.
- 3.2 The council's Risk Management and Insurance section is responsible for:
- Maintaining adequate and cost effective risk financing measures;
 - Managing the internal self insurance fund;
 - Providing risk management advice, guidance and support;
 - Arranging, where appropriate, the placement of cover with external insurers including the negotiation of premium rates and policy terms; and
 - The provision of an appropriate insurance claims handling service.

- 3.3 The council will normally appoint an external independent insurance broker/advisor to support and assist the council in respect of the periodic tender of its insurance portfolio. The appointment will normally include provision of ongoing support on a retained basis.
- 3.4 The appointment of an insurance broker/advisor will be led by the Risk and Assurance Manager with such an appointment normally taking place at least six months in advance of any renewal (or tender) of external insurances.
- 3.5 External insurance will be procured in accordance the council's Contract Procedure Rules. The council will award contracts for the provision of insurance services on the basis of the most economically advantageous terms in respect of price and quality.
- 3.6 The tender of the council's insurance portfolio will normally take place every three to five years (unless a longer or shorter term contract or agreement is proven to be beneficial to the council). In accordance with good practice the council will normally seek to enter into a 'long term agreement' ("LTA") with insurer(s). The LTA, which normally includes a discount on the premium, provides continuity of cover, an element of financial certainty and is in line with the standard market approach.

4. Process and procedures

- 4.0 An effective risk financing programme is one that provides appropriate and adequate protection for the council to support and enable current and future service delivery in addition to being able to demonstrate value for money.
- 4.1 The overall objective of the Risk Financing Strategy is to ensure that funds are available to pay for insurable losses using the most cost effective sources of finance. In doing so the council seeks to protect its financial position through the selective purchase of insurance cover and seeks to ensure that the risk financing structure is as financially efficient as possible, whilst accepting that financial certainty has a cost.
- 4.2 The aim is to achieve the optimum balance between self insurance and external insurance, with the latter intended primarily to protect the council against the effects of a catastrophic loss and to limit the council's financial exposure in any one period. The approach seeks to smooth the cost of risk and minimise year on year fluctuations.
- 4.3 The structure of the risk financing programme will be subject to a periodic review, led by the insurance broker/advisor, in order to identify any potential gaps, duplication etc in cover, and to evaluate self insurance against other risk transfer options.
- 4.4 The cost of risk (i.e. external insurance premiums and contribution to the internal insurance fund) is apportioned across service areas on an equitable basis via an annual insurance recharge.

4.5 Losses within the insurance deductible are met from the self insurance fund, which is reviewed on a monthly basis by the Risk and Assurance Manager.

4.6 In line with good practice the 'self insurance fund' is subject to independent actuarial review which is normally undertaken every three years. The review considers whether adequate funds are available to meet current and future liabilities. A summary of the report is provided to the Chief Financial Officer and to the Governance Committee.

5. Alternative Risk Transfer

5.0 The council is committed to securing value for money and securing the most cost efficient source of risk financing. The insurance market for local authorities has traditionally been a specialist market with only a very limited number of insurers prepared to offer cover.

5.1 The council, in consultation with its insurance broker/advisor, will keep abreast of any opportunities in respect of 'alternative risk financing' including consortia purchasing, joint procurement, risk pooling etc. The foregoing options would however only be considered where any such proposals provided an acceptable level of financial certainty and security and a clear cost benefit.

6. Communication and Consultation

6.0 The Risk Management Strategy will be published on the council's intranet site.

7. Benchmarking

7.0 Where appropriate the council will compare its approach to risk financing with peer authorities and will draw on benchmarking data in order to identify potential gaps in cover or areas for review.

8. Review

8.0 This document will be reviewed annually by the Risk and Assurance Manager with any significant changes reported to the Governance Committee.

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RISK MANAGEMENT ACTION PLAN 2015-16

	THEME/SOURCE/ISSUE	ACTION	TARGET	LEAD OFFICER
1.	Risk Strategy and Reporting	To ensure that the approach to managing risk is aligned with, and reflects, the more outcome based approach and the associated changes in respect of future delivery of services (New Operating Model).	Mar 16	Risk and Assurance Manager in consultation with the council's Transformation Team and Council Management Team.
2.	Risk Strategy and Reporting	Review whether is it necessary and appropriate for Directorates to develop and manage their own Directorate Risk Assurance Reports. This will be influenced and informed by the implementation of the New Operating Model.	Mar 16	Risk and Assurance Manager in consultation with the council's Transformation Team and Council Management Team.
3.	Training	Work with insurers in terms of ensuring the most appropriate use of the insurers 'risk management days' that are provided as part of the contract including exploring the possibility of hosting a 'mock trial'.	Mar 16	Risk and Assurance Manager in consultation with the council's brokers and insurers
4.	Risk Financing	To work with the council's new insurers in terms of embedding the new insurance contract and the required associated processes and procedures	Aug 15	Risk and Assurance Manager in consultation with the council's insurers, services areas, schools etc.
5.	Loss Control	To facilitate and direct a programme of property 'fire and security' risk reviews either at the request of insurance underwriters or in response to an area of concern.	Oct 15	Risk and Assurance Manager in consultation with insurers and the Responsible Persons within the respective premises/service areas.
6.	Guidance and advice	To ensure that an appropriate and current range of risk management and insurance guidance documents are available and aligned with the requirements of service areas.	Mar 16	Risk and Assurance Manager
7.	Policy and Strategy	To review and update the Risk Management Strategy to ensure that it remains relevant and appropriate. Report any significant changes to the Governance Committee.	Mar 16	Risk and Assurance Manager

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RISK MANAGEMENT ACTION PLAN 2014-15 : STATUS REPORT

	THEME/SOURCE/ ISSUE	ACTION	TARGET	STATUS	COMMENT
1.	Risk Strategy and Reporting	To further develop and refine the new 'Risk Assurance Report' approach in terms of being able to clearly articulate the status of key risks and to ensure a consistent approach across the Council.	Mar 15	COMPLETED	The Risk Assurance Report has been further refined during the course of 2014-15 including a revised 'risk scoring methodology'.
2.	Communication	To develop a page on 'Sharepoint' to provide CMT, and other nominated persons, with access to view, edit and update the Strategic Risk Assurance Report and other related documents. SharePoint is a Web site used by the Council as central storage space for documents and information.	May 14	COMPLETED MAY 14	Strategic Risk are now held on the Sharepoint site.
3.	Training	Explore the options in terms of an 'e-learning' risk management training solution.	Dec 14	DEFERRED	An initial review, including enquiries with other council's, did not identify any suitable training product. This will be revisited in 2015-16 in consultation with the council's new insurers.
4.	Business Planning	To review, and where necessary, challenge the content of the Directorate Risk Assurance Reports to ensure that the identified risks are aligned with the Directorates key priorities and that there is consistency of approach.	Sept 14	COMPLETED OCT 14	As reflected in report to the Governance Committee in December 2014.
5.	Risk Financing	To undertake tender of the council's corporate insurance portfolio via the Crown Commercial Services - Insurance Framework Agreement.	Mar 15	COMPLETED MAR 15	A new corporate insurance programme was put in place from 1 st April 2015. This followed a competitive tender exercise undertaken via a national framework agreement.
6.		In advance of the tender, to review the content and structure of the current programme specifically in terms of deductibles / self insurance with view to identifying the optimum balance between self insurance and external insurance.	Oct 14	COMPLETED OCT 14	

	THEME/SOURCE/ ISSUE	ACTION	TARGET	STATUS	COMMENT
7.		In advance of the tender, to undertake an exercise to 'cleanse' our insurance claims loss experience by critically reviewing the reserves allocated to outstanding claims.	Oct 14	COMPLETED OCT 14	will remain with AIG and Fine Art which remains with AXA.
8.		To review the type and scope of information required in order to develop a high quality tender document that is aligned with insurance company underwriting expectations.	Oct 14	COMPLETED OCT 14	
9.	Loss Control	To facilitate a Fleet & Driver Risk Management Review. This exercise, undertaken by our Motor Claims Handlers and at no cost to the Council, will look at the operation of the Fleet from a risk management perspective.	June 14	COMPLETED JUNE 14	The report covered a wide range of issues and include a number of recommendations which are being considered and progressed as appropriate.
10.	Loss Control	To facilitate and direct a programme of property 'fire and security' risk reviews either at the request of insurance underwriters or in response to an area of concern.	Sept 2014	NOT PROGRESSED	Insurers chose not to undertake a programme of property surveys in 2014-15.
11.	Guidance and advice	To ensure that an appropriate and current range of risk management and insurance guidance documents are available and aligned with the requirements of service areas.	Mar 2015	COMPLETED MAR 15 (ONGOING)	Insurance information has been updated to reflect current insurance arrangements. Risk guidance requires a more fundamental review in order to ensure that it reflects the changing organisation.
12.	Policy and Strategy	To review and update the Risk Management Strategy to ensure that it remains relevant and appropriate. Report any significant changes to the Governance Committee.	Mar 2015	COMPLETED APR 15	

DECISION-MAKER: GOVERNANCE COMMITTEE
SUBJECT: EXTERNAL AUDIT PLAN YEAR ENDING 31 MARCH 2015
DATE OF DECISION: 27 APRIL 2015
REPORT OF: CHIEF INTERNAL AUDITOR

CONTACT DETAILS

AUTHOR: Name: Neil Pitman Tel: 01962 845139
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STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

The external auditor's annual plan sets out the how they will carry out their responsibilities as Southampton City Council's auditors.

Its purpose is to provide the Governance Committee with a basis to review the external auditors proposed audit approach and scope for the 2014/15 audit in accordance with the requirements of the Audit Commission Act 1988, the Code of Audit Practice, Standing Guidance, auditing standards and other professional requirements.

The plan summarises the external auditors initial assessment of the key risks driving the development of an effective audit for the Council, and outlines their planned audit strategy in response to those risks.

RECOMMENDATIONS:

- (i) The Governance Committee is invited to comment on and note the External Audit Plan Year Ending 31 March 2015 as attached.

REASONS FOR REPORT RECOMMENDATIONS

1. In accordance with the requirements of the Audit Commission Act 1988

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The External Audit Plan Year Ending 31 March 2015 has been discussed with relevant senior managers

RESOURCE IMPLICATIONS

Capital/Revenue

4. None.

Property/Other

5. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

6. Audit Commission Act 1988

Other Legal Implications:

7. None

POLICY FRAMEWORK IMPLICATIONS

8. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:

SUPPORTING DOCUMENTATION

Appendices

1. The External Audit Plan Year Ending 31 March 2015

Documents In Members' Rooms

1. None

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out. No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1. None	

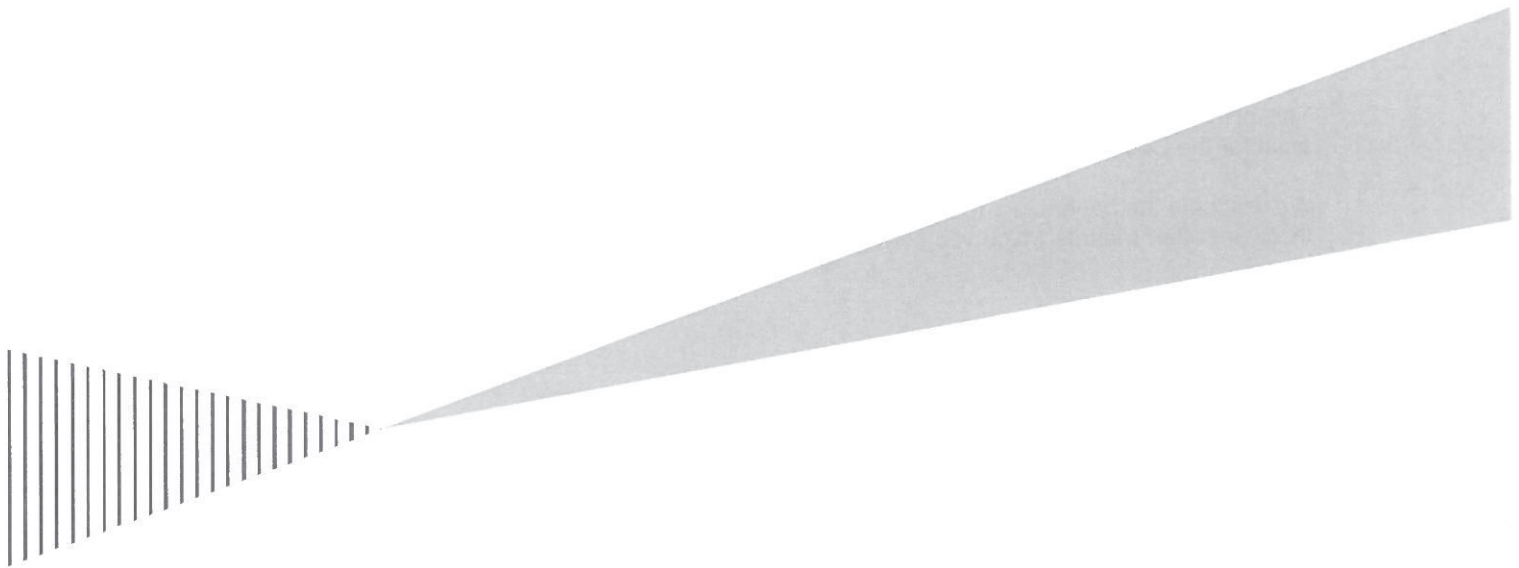
Southampton City Council

Year ending 31 March 2015

Audit Plan

April 2015

Ernst & Young LLP





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Governance Committee
Southampton City Council
Civic Centre
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SO14 7LY

14 April 2015

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Governance Committee with a basis to review our proposed audit approach and scope for the 2014/15 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, Standing Guidance, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this plan with you on 27 April 2015 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson
For and behalf of Ernst & Young LLP
Enc

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission's website.

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

Context for the audit

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ our audit opinion on whether the financial statements of Southampton City Council give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended; and
- ▶ a statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness;

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and
- ▶ management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In parts three and four of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section five.

We will provide an update to the Governance Committee on the results of our work in these areas in our report to those charged with governance, scheduled for delivery in September 2015.

Our process and strategy

Financial statement audit

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

We aim to rely on the Council's internal controls in the key financial systems to the fullest extent allowed by auditing standards. We identify the controls we consider important and seek to place reliance on internal audit's testing of those controls. Where control failures are identified we consider the most appropriate steps to take.

We seek to place reliance on the work of internal audit wherever possible. We have already liaised with Internal Audit over their coverage of the controls on which we would wish to undertake a programme of audit work.

Arrangements for securing economy, efficiency and effectiveness

Our approach to the value for money (VFM) conclusion for Southampton City Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place within the Council for:

- ▶ securing financial resilience; and
- ▶ challenging how the Council secures economy, efficiency and effectiveness.

We adopt an integrated audit approach, so our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

Further detail is included in section four of this Audit Plan.

2. The Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 (the 2014 Act) closes the Audit Commission and repeals the Audit Commission Act 1998.

The 2014 Act requires the Comptroller and Auditor General to prepare a Code of Audit Practice. This must be laid before Parliament and approved before 1 April 2015.

Although this new Code will apply from 1 April 2015, transitional provisions within the 2014 Act provide for the Audit Commission's 2010 Code to continue to apply to audit work in respect of the 2014/15 financial year. This plan is therefore prepared on the basis of the continued application of the 2010 Code of Audit Practice throughout the 2014/15 audit.

3. Financial statement risks

We outline below our assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Non domestic rate appeals provision	
<p>In 2013/14 there were significant changes in the accounting arrangements for business rates, including the requirement for councils to provide for rating appeals. The Council established a methodology that included known appeals, and an estimate for those as yet unlodged.</p> <p>Due to the extension of the business rate valuation cycle to 2017, Government has made changes to legislation affecting the period appeals can be backdated. After 31 March 2015, appeals made cannot be backdated to the start of the valuation period in 2010. The change may also create an increase of appeals before 31 March 2015.</p> <p>The Council will need to reassess its methodology to estimating the provision for appeals.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ understanding and evaluating the Council's review of its estimation methodology for the appeals provision; and ▶ reviewing the calculation made.
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ reviewing accounting estimates for evidence of management bias, and ▶ evaluating the business rationale for significant unusual transactions.
Other financial statement risks	
Schools non-current asset accounting	
<p>CIPFA has issued LAAP bulletin 101, Accounting for non-current assets used by local authority maintained schools. This does not represent a change to the Code of Local Authority Accounting Practice, but additional guidance to its application.</p> <p>One of the key aspects in accounting for schools is that councils should not take a blanket approach to each category of school,</p>	<p>Our approach will focus on reviewing the process the Council has taken to ensuring that it has reviewed individual schools' admission arrangements against the criteria it has set whether to recognise a school on its balance sheet, or not.</p>

but assess the individual arrangements in place.

Schools Direct

The Council's financial statements include expenditure relating to many of the schools in the authority's area, excluding Academies.

The payroll provider to a number of these schools, Schools Direct, unexpectedly ceased trading during the year.

Our approach will focus on assessing the arrangements the Council, and schools, made to ensure that schools' payrolls continued to be accurately paid and recorded in the financial statements.

Change of bank account

The Council changed its main bank account during the year as a result of the Co-Operative bank withdrawing from the local government sector.

Our approach will focus on reviewing the arrangements management implemented for the transfer.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages;
- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud; and
- ▶ performing mandatory procedures regardless of specifically identified fraud risks.

We may consider the results of the National Fraud Initiative and refer to it in our reporting to you.

4. Economy, efficiency and effectiveness

Our approach to the value for money (VFM) conclusion for Southampton City Council for 2014/15 is based on criteria specified by the Audit Commission relating to whether there are proper arrangements in place at the Council for securing:

1. financial resilience, and
2. economy, efficiency and effectiveness in the use of resources.

The Audit Commission VFM guidance for 2014/15 requires that auditors consider and assess the significant risks of giving a wrong conclusion and carry out as much work as is appropriate to enable them to give a safe conclusion on arrangements to secure VFM.

Our assessment of what is a significant risk is a matter of professional judgement, and is based on consideration of both quantitative and qualitative aspects of the subject matter in question.

For those significant risks identified by our risk assessment that are relevant to our VFM conclusion, where these risks will not be addressed by our financial statements audit work or work undertaken by the Council, Audit Commission or other review agency, we consider the need to undertake local VFM work.

The table below provides a high-level summary of our risk assessment and our proposed response to those risks.

Significant risks	Impacts arrangements for securing	Our audit approach
Financial Pressures		
Reductions in central government funding, coupled with demand lead pressures on its significant services, mean the Council is continuing to experience financial pressures.	Financial resilience	Our approach will focus on: <ul style="list-style-type: none"> ▶ reviewing your 2015/16 annual budget, and medium term forecast assumptions; ▶ evaluating the impact of the Council's transformation programme and its contribution to addressing the financial pressures; and ▶ Maintaining a review of the reported financial position and development of savings programmes through to the date of our conclusion.

We will keep our risk assessment under review throughout our audit and communicate to the Governance Committee any revisions to the specific risks identified here and any additional local risk-based work we may need to undertake as a result.

5. Our audit process and strategy

5.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice (the Code) our principal objectives are to review and report on, the Council's:

- ▶ financial statements; and
- ▶ arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue a two-part audit report covering both of these objectives.

i Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

ii Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, we will rely as far as possible on the reported results of the work of other statutory inspectorates on corporate or service performance.

In examining the Council's corporate performance management and financial management arrangements, we consider the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

5.2 Audit process overview

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls, both manual and IT:

- ▶ cash and bank
- ▶ council tax
- ▶ creditors
- ▶ debtors
- ▶ housing benefit & council tax support
- ▶ non domestic rates

- ▶ payroll

We have also identified the following key processes that we will test substantively post year-end:

- ▶ housing rents
- ▶ property, plant and equipment
- ▶ pension liabilities
- ▶ financial statements close process

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ give greater likelihood of identifying errors than random sampling techniques.

We will report any significant findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Governance Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our audit reporting, where we raise issues that could have an impact on the year-end financial statements

Use of experts

We will use specialist EY resource as necessary to help us to form a view on judgments made in the financial statements. Our plan currently includes involving specialists in pensions.

Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section three, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ addressing the risk of fraud and error;
- ▶ significant disclosures included in the financial statements;
- ▶ entity-wide controls;
- ▶ reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Governance Statement.
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.
- ▶ Reviewing and examining, where appropriate, evidence relevant to the Council's corporate performance management and financial management arrangements, and its reporting on these arrangements.

5.3 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. We have determined that overall materiality for the financial statements of the Council is £7.454 million based on 1% of estimated annual gross revenue expenditure. We will communicate uncorrected audit misstatements greater than £0.373 million to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

5.4 Fees

The Audit Commission has published a scale fee for all authorities. This is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of Southampton City Council is £190,286.

5.5 Your audit team

The engagement team is led by Helen Thompson, who has significant experience of the Local Government sector. Helen is supported by Kevin Suter who is responsible for the day-to-day direction of audit work and is the key point of contact for the Chief Financial Officer.

5.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the VFM work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Governance Committee's cycle in 2014/15. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Governance Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Our audit process and strategy

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning			Audit Fee letter
Risk assessment and setting of scopes	February/March 2015	April 2015	Audit Plan
Testing routine processes and controls	March/April 2015		
Year-end audit	June –August 2015	September 2015	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; and overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2015		Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

6. Independence

6.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

6.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the Audit Commission's Standing Guidance.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Helen Thompson the audit engagement Director and the audit engagement team have not been compromised.

6.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended 27 June 2014 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2014>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2014/15 £	Scale Fee 2014/15 £	Out-turn 2013/14 £	Explanation
Opinion Audit and VFM Conclusion	190,286	190,286	190,286	
Total Audit Fee – Code work	190,286	190,286	190,286	
Certification of claims and returns ¹	25,340	25,340	27,632	In 2014/15 the fee is for Housing Benefit certification only. 2013/14 included certification of the Pooling of Housing Capital Receipts.

¹ Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission
All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ officers meet the agreed timetable of deliverables;
- ▶ the operating effectiveness of the internal controls for the key processes outlined in section 5.2 above;
- ▶ we can rely on the work of internal audit as planned;
- ▶ the Audit Commission making no significant changes to the use of resources criteria on which our conclusion will be based;
- ▶ our accounts opinion and use of resources conclusion being unqualified;
- ▶ appropriate quality of documentation is provided by the Council; and
- ▶ the Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Governance Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	▶ Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	▶ Report to those charged with governance
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Report to those charged with governance
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	▶ Report to those charged with governance
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	▶ Report to those charged with governance
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance Committee may be aware of 	▶ Report to those charged with governance

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Annual Report to those charged with governance summarising grant certification.

EY | Assurance | Tax | Transactions | Advisory

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DECISION-MAKER: GOVERNANCE COMMITTEE
SUBJECT: INTERNAL AUDIT CHARTER 2015-16
DATE OF DECISION: 27 APRIL 2015
REPORT OF: CHIEF INTERNAL AUDITOR

CONTACT DETAILS

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STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

With effect from 1 April 2013 all public sector bodies were required to adopt the Public Sector Internal Auditing Standards [the Standards]. One of the requirements of the Standards is for 'the board' to approve annually the Internal Audit Charter

The internal audit charter is a formal document that defines internal audits purpose, authority and responsibility.

The internal audit charter establishes internal audits position within the organisation, including the nature of the chief internal auditor's functional reporting relationship with the board; authorised access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

In respect of public sector organisations the internal audit charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

The Internal Audit Charter 2015-16 is attached at Appendix 1

RECOMMENDATIONS:

- (i) That the Governance Committee approves the Internal Audit Charter 2015-16 as attached.

REASONS FOR REPORT RECOMMENDATIONS

1. In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Governance Committee is required to approve annually the internal audit charter

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

3. The internal audit charter 2015-16 has been approved by the Council's Management Team and is attached for consideration in the appendix

RESOURCE IMPLICATIONS

Capital/Revenue

4. None

Property/Other

5. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

6. The Accounts and Audit (England) Regulations 2015 state '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.

Other Legal Implications:

7. None

POLICY FRAMEWORK IMPLICATIONS

8. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:

SUPPORTING DOCUMENTATION

Appendices

1. Internal Audit Charter 2015-16

Documents In Members' Rooms

1. None

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out. No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

- | Title of Background Paper(s) | Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable) |
|------------------------------|--|
| 1. None | |



Internal Audit Charter

Introduction

Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards, which took effect from the 1 April 2013, provide a consolidated approach across the whole of the public sector providing continuity, sound corporate governance and transparency.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.

Authority

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'.

Purpose

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.

This is achieved through internal audit providing 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.

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 responsibility for maintaining an adequate and effective system of internal audit within Southampton City Council lies with the Chief Financial Officer (S151 Officer).

For the Council, internal audit is provided by the Southern Internal Audit Partnership.

The Chief Internal Auditor (Head of Southern Internal Audit Partnership) is responsible for effectively managing the internal audit activity in accordance with the '*Definition of Internal Auditing*', the '*Code of Ethics*' and '*the Standards*'.

Definitions

For the purposes of this charter the following definitions shall apply:

The Board – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Governance Committee.

Senior Management – those responsible for the leadership and direction of the Council. At the Council this should mean the Council Management Team

Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the Chief Financial Officer who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the Council's affairs.

The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

The Chief Internal Auditor has direct access to the Council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards.

Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Governance Committee).

Internal audit resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The Chief Financial Officer, will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

'Senior Management' and 'the Board' will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to 'senior management' and 'the Board', for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to 'senior management' and 'the Board'.

If the Chief Internal Auditor, 'the Board' or 'Senior Management' consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Chief Financial Officer, accordingly.

Independence and objectivity

Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to senior management and 'the Board';
- reports functionally to 'the Board';
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team;
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensures the planning process recognise and address potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to 'Senior Management' and 'the Board'. The nature of the disclose will depend upon the impairment.

To ensure the independence of the Chief Internal Auditor is safeguarded and that remuneration and performance assessment are not inappropriately influenced by those subject to audit, the Chief Executive will both countersign and contribute feedback to the performance appraisal of the Chief Internal Auditor. Feedback will also be sought from the Chair of the Governance Committee.

Due professional care

Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

Internal auditors will apprise themselves of the '*Definition of Internal Auditing*', the '*Code of Ethics*' and the '*Standards*' and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor in accordance with the Council's laid down procedures.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

Access to relevant personnel and records

In accordance with the Council's constitution (Part 4 – Financial Procedure Rules (S C.12-C.24)), in carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to the Council or its key delivery partner organisations.

Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

Scope of Internal Audit activities

The Chief Internal Auditor 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 will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control

The Council assume a strategic partner role within the Southern Internal Audit Partnership (SIAP). The SIAP currently provides internal audit services to a wide portfolio of public sector clients. (Annex 1) through a variety of partnership and sold service delivery models.

A range of internal audit services are provided (Annex 2) to form the annual opinion for each member / client of the SIAP. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisations success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. Additionally, proactive fraud reviews will be incorporated within the plan to deter and detect fraud, covering known areas of high risk.

Managers are required to report all suspicions of theft, fraud and irregularity to the Chief Internal Auditor. The Chief Internal Auditor manages and controls all investigations and will ensure that investigators are fully trained in carrying out their responsibilities.

Where there is evidence that Council staff are committing fraud, internal audit will liaise with Human Resources and the department concerned. The decision on whether to invoke criminal proceedings will be made by the Chief Internal Auditor in conjunction with the Monitoring Officer.

The monitoring of the Council's Anti-Fraud Strategy will be the responsibility of the Chief Internal Auditor, as part of the monitoring of the internal audit annual plan.

Internal audit also facilitate the Council's participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

Reporting

Chief Internal Auditor's Annual Report and Opinion

The Chief Internal Auditor shall deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report will incorporate as a minimum:

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme

Senior Management

As those responsible for the leadership and direction of the Council it is imperative that the Council Management Team are engaged in:

- approving the internal audit charter (minimum annually);
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance

The Board

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- approving the internal audit budget and resource plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations;
- agreement of the scope and form of the external assessment as part of the quality management and improvement plan;
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance; and
- approval of significant consulting services not already included in the audit plan, prior to acceptance of the engagement

Review of the internal audit charter

This charter will be reviewed annually (minimum) by the Chief Internal Auditor and presented to '*Senior Management*' and '*the Board*' for approval.

Southern Internal Audit Partnership – Client Portfolio

Strategic Partners:	Hampshire County Council Southampton City Council
Key Stakeholder Partners:	Havant Borough Council East Hampshire District Council Winchester City Council
External clients:	Hampshire Fire & Rescue Authority Office of the Police & Crime Commissioner / Hampshire Constabulary Hampshire Pension Fund

Higher Education Institutions

University of Winchester

Further Education Institutions

Brockenhurst;
Fareham;
FCoT;
Highbury;
Itchen;
Portsmouth;
QMC;
St Vincent's;
Isle of Wight;
Taunton's; and
Totton

Academies

Highcliffe

Assurance Services

- **Risk based audit:** in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.
- **Developing systems audit:** in which:
 - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
 - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.
- **Compliance audit:** in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.
- **Quality assurance review:** in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
- **Fraud and irregularity investigations:** Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in the Council's Anti Fraud and Anti Corruption Strategy.
- **Advisory / Consultancy services:** in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

appropriate control environment exists and appropriately reported on, the service is ideally positioned and has been appropriately briefed to challenge current practice and where applicable highlight duplication and over control, contributing to efficiencies across the Council.

RECOMMENDATIONS:

- (i) The Governance Committee is invited to comment on and approve the Internal Audit Plan for 2015/16 as attached

REASONS FOR REPORT RECOMMENDATIONS

- 1. In accordance with proper internal audit practices, the Governance Committee is required to approve, but not direct, the Internal Audit Plan

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 2. None

DETAIL (Including consultation carried out)

- 3. The internal audit plan has been approved by the Council's Management Team

RESOURCE IMPLICATIONS

Capital/Revenue

- 4. None

Property/Other

- 5. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

- 6. The Accounts and Audit (England) Regulations 2015 state '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'.

Other Legal Implications:

- 7. None.

POLICY FRAMEWORK IMPLICATIONS

- 8. None.

WARDS/COMMUNITIES AFFECTED:

SUPPORTING DOCUMENTATION

Appendices

- 1. Internal Audit Plan 2015-16

Documents In Members' Rooms

- 1. None

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out. No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1. None	

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Agenda Item 9

Appendix 1

Internal Audit Plan 2015-16 (Draft)

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Corporate Priority	Audit Needs Assessment
Transformation	Transformation & Performance	SR01, SR03, SR08, PI06	1, 5, 7	H
Business Continuity and Emergency Planning	Place	SR02, Pe04, Pe05	3, 7	H
Health and Safety	CX	SR04, PI03	3, 7	H
Human Resources - recruitment	CX	Pe01	1, 3, 7	H
Procurement	CFO	SR01	1, 5, 7	H
Contract Management	CFO	SR08, Pe04	5, 7	H
Repairs and maintenance	People	SR01, PI09	4, 7	H
Strategic Service Partnership	CX	SR08	5, 7	H
Fleet Management	Place	SR01, PI02	7	M
Human resources - Pay and allowances	CX		1, 7	H
Corporate Governance				
Annual Governance Statement	CFO	Mandatory	3, 7	H
Human resources - policies and procedures	CX		1, 7	M
Proactive Fraud Review(s)	CX	SR01	3, 6, 7	M
Reactive Fraud	CX	SR01	3, 6, 7	H
Special investigation 1 - Ongoing	People	-	-	H
Special investigation 2 - Ongoing	People	-	-	H
Special investigation 3 - Ongoing	Place	-	-	H
National Fraud Initiative	CX	Mandatory	3, 6, 7	H
Performance Management	Transformation & Performance	SR01, Pe01	1, 7	H
Information Governance	MO	SR05, Pe02	3, 6, 7	H
Financial management				
Housing rents and Debt Management	People	Key financial	4, 7	H
Income Collection and Transactions	CFO	Key financial	7	H
Accounts Payable	CFO	Key financial	7	M
Financial Management (budget monitoring)	CFO	Key financial	7	M
Main Accounting System	CFO	Key financial	7	M
Payroll	CFO	Key financial	7	H
IT				
Internet/e-mail	CFO	SR05	7	M
IT governance	CFO	SR01	7	M
IT disaster recovery	CFO	SR02	7	H
Telecommunications	CFO	SR01	7	H
Strategic Objectives				
Arts and Heritage	Place	PI07	1, 5, 6	M
Across Schools Thematic Review 1 - Procurement	People	SR01	3, 7	H
Across school thematic review 2 - Payroll	People	SR01	3, 7	H
Establishment reviews - homes	People	Pe03	3, 7	M
General school reviews	People	SR01	3, 7	H
Safeguarding - Protection and Court Teams (PACT)	People	SR03, Pe02	3	H
Respite schemes - children and adults	People	SR06, Pe03, Pe04	2, 3, 5	H
Integrated Commissioning Unit	People	SR01, SR06	2, 5, 7	H

Audit	Audit Sponsor	Strategic / Directorate Risk Registers	Corporate Priority	Audit Needs Assessment
SFVS - School Financial Value Standard	People	Mandatory	7	H
Safeguarding (Children) Assurance mapping	People	SR03	3	H
Highways	Place	SR08	5, 6, 7	H
Housing Depot Reviews	People	SR01	4, 5, 7	H
City deal	Place	PI04	5, 6, 7	H
Leisure - contract management	Place	SR08	5, 7	M
HMO Licensing	People	SR06, PI05	4, 7	M
Adoption	People	Pe04	3	H
Better Care Fund	People	SR06	3, 7	H
Care Act	People	SR06	3, 7	H
Families Matters governance review	People		2, 3, 7	M
Think Local, Act Personal - (Personalisation - support planning)	People	SR06, Pe04	2, 3, 5, 7	H
Safeguarding - Adults	People	SR03	3	H
Contribution and charging policies	People	SR06, Pe04	2, 3, 5	H
Health and Wellbeing Board	People	SR04, SR06	2, 3, 5, 7	H
Direct payments	People	SR06	2, 3	H
Quality assurance	People	SR03, SR06, Pe04	2, 3, 5	H
Families Matters grant claims	People	Mandatory	2, 3, 7	H
Continuing Healthcare	People	SR06	2, 3, 5, 7	H
DOLS	People	SR03, SR06, Pe04	2, 3	H
PUSH	CFO	Mandatory	1, 6, 7	H
Other Direct Audit Activity				
Annual Audit Report	CFO	-	-	-
Audit charter	CFO	-	-	-
Operational Plan Preparation	CFO	-	-	-
Monitoring, Liaising & Reporting	CFO	-	-	-
External Audit Liaison	CFO	-	-	-
Audit Committee	CFO	-	-	-
Follow Up	CFO	-	-	-
Advice	CFO	-	-	-
Audit day allocation	1000 days			

Council Priorities

No	Priority
1	Jobs for local people
2	Prevention and early intervention
3	Protecting vulnerable people
4	Good quality and affordable housing
5	Services for all
6	City pride
7	A sustainable council

Strategic Risk Register

No	Strategic Risk - Description
01	Failure to address the ongoing significant financial pressures in a sustainable way and to enable service provision to be on a proactive rather than reactive basis
02	Major incident or service disruption leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions
03	Failure to maintain a robust safeguarding culture across the People Directorate
04	Failure to meet our health and safety responsibilities.
05	Failure to ensure the City Council's information is held and protected in line with Information Governance policies and procedures.
06	The Council is unable to quantify the financial impact on both vulnerable individuals and key council services arising from implementation of welfare reforms.
07	-
08	The contractual arrangements, in respect of those council services commissioned from and delivered by external organisations / partners, are not sufficiently flexible to respond to the council's changing service requirements.

Directorate Risk Registers

Place	
No	Risk
1	Insufficient re-skilling and apprenticeships created to meet the emerging needs of the future growth sectors of the City economy.
2	Unable to deliver sustainable and resilient services for all against a backdrop of significant and ongoing budget savings.
3	Health & Safety arrangements not actively monitored and lessons learned from incidents not properly applied.
4	Insufficient progress on VIP Regeneration projects (City centre and estates) leading to reputational damage, lack of economic growth and/ or continuation of substandard Council housing in some areas.
5	Delays or barriers to introducing HMO Licensing schemes maintaining continued poor housing conditions in parts of the private rented sector.
6	Unable to fully deliver Waste Transformation Programme leading to future additional budget pressures and missed targets for recycling/landfill reduction.
7	Not being able to identify financially sustainable models of operation for Museums, Art Galleries and Libraries leading to closure of facilities and services.
Page 976	Road maintenance backlog exceeds acceptable levels.
	Structural maintenance backlog leads to failure of strategic infrastructure.
	Ability to cope with congestion on the road network.

People	
No	Risk
1	The resources available to the Directorate financially/capital assets/staffing are not adequate to provide minimum/current levels/future/statutory service levels.
2	The processes in place to safeguard the sensitive and personal information that the Directorate holds regarding Clients/Residents does not meet legislative requirements and/or best practice guidance leading to misuse/data breaches/data loss and potential monetary fines from the Information Commissioners Office.
3	The failure of services/design of services/errors in practice/inability to share information leads to the death or significant harm of an individual/individuals currently in receipt of Council support/eligible for support/resident of the City, under current legislation.
4	The Providers that the People Directorate works with are unable to fulfil their contractual /framework/spot purchase obligations due to service failure/poor service design/errors in practice.
5	The Directorate is unable to carry out day to day activities due to a major incident/service based incident/emergency situation that diverts staff and other resources.

3. The internal progress report has been approved by the Council's Management Team

RESOURCE IMPLICATIONS

Capital/Revenue

4. None

Property/Other

5. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

6. The Accounts and Audit (England) Regulations 2015 state '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'.

Other Legal Implications:

7. None

POLICY FRAMEWORK IMPLICATIONS

8. None

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:

SUPPORTING DOCUMENTATION

Appendices

1. Internal Audit Progress Report - March 2015

Documents In Members' Rooms

1. None

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out. No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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1. None

Internal Audit Progress Report

March 2015

Southampton City Council



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**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 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. Purpose of report

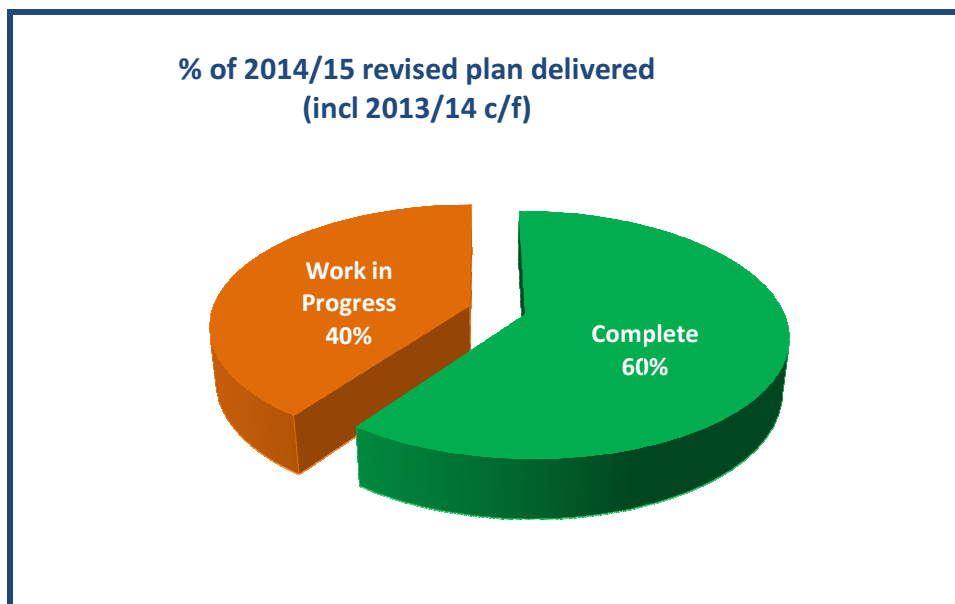
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to ‘Senior Management’ and ‘the Board’, summarising:

- The status of ‘live’ internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary a significant issues that impact on the Chief Internal Auditor’s annual opinion

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised 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 identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk
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

3. Performance dashboard



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Compliance with Public Sector Internal Audit Standards / Local Government Application Note	
	<p>During 2013 – 14 The Head of the Southern Internal Audit Partnership undertook a self-assessment concluding overall compliance against the Standards and the LGAN. To provide independence to the process the self –assessment was reviewed by Hampshire County Council’s Monitoring Officer to ensure it presented a true and fair view.</p> <p>Independent analysis confirmed that the self-assessment provided <i>‘a fair assessment of the internal audit activity’</i></p>


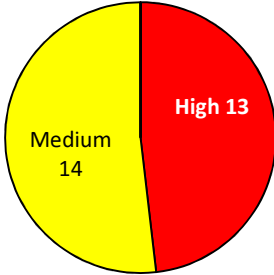
4. Status of 'Live' Reports

Audit title	Report date	Directorate Sponsor	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Cash Collection & Banking	21/01/13	Corporate Services	Limited	Adequate	12 (5)	0 (0)	9 (5)	3 (0)
Development Management	26/04/13	Place	Limited	Adequate	7 (4)	0 (0)	6 (4)	1 (0)
Quality Assurance	18/07/13	People	Adequate	Adequate	15 (9)	0 (0)	13 (7)	2 (2)
Neighbourhood wardens	22/10/13	People	Adequate	Adequate	7 (2)	0 (0)	6 (2)	1 (0)
Payroll	04/04/14	Corporate Services	Adequate	Adequate	11 (4)	0 (0)	6 (3)	5 (1)
Bevois Town Primary School	02/05/14	People	Limited	Adequate	20 (17)	0 (0)	18 (17)	2 (0)
St Monica Junior School	08/05/14	People	Limited	Adequate	28 (23)	0 (0)	20 (15)	8 (8)
Income Collection and Transactions	09/05/14	Corporate Services	Adequate	Adequate	6 (0)	0 (0)	4 (0)	2 (0)
Business Continuity & Emergency Planning	09/07/14	Place	Limited	Limited	11 (5)	2 (0)	5 (5)	4 (0)
Data Centre Security	16/07/14	Corporate Services	Limited	Limited	2 (0)	0 (0)	0 (0)	2 (0)
Information Governance	17/07/14	Corporate Services	Limited	Limited	21 (15)	0 (0)	15 (11)	6 (4)
Integrated Assessment–Data Performance	30/07/14	People	Adequate	Adequate	3 (3)	1 (1)	2 (2)	0 (0)
Itchen Bridge	31/07/14	Place	Adequate	Adequate	10 (5)	0 (0)	8 (5)	2 (0)
Partnership arrangements	01/08/14	Corporate Services	Adequate	Adequate	6 (0)	1 (0)	1 (0)	4 (0)
Health and Safety	22/09/14	Corporate Services	Limited	Limited	16 (14)	2 (1)	6 (5)	8 (8)

Audit title	Report date	Directorate Sponsor	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Building Control	07/10/14	Place	Adequate	Adequate	3 (1)	0 (0)	1 (0)	2 (1)
Across Schools Thematic Review (Payroll)	12/11/14	People	Limited	Adequate	9 (0)	0 (0)	8 (0)	1 (0)
Maytree Infant and Nursery School	12/11/14	People	Limited	Adequate	23 (23)	0 (0)	22 (22)	1 (1)
Public Health Contracts	20/11/14	People	Adequate	Adequate	2 (0)	0 (0)	0 (0)	2 (0)
Fostering	09/01/15	People	Adequate	Adequate	10 (0)	0 (0)	7 (0)	3 (0)
Capacity Planning and Management	26/01/15	Corporate Services	Adequate	Adequate	2 (0)	1 (0)	1 (0)	0 (0)
Delivery of statutory functions - LADO – Local Authority Duty Officer	04/03/15	People	Adequate	Adequate	4 (3)	2 (1)	2 (2)	0 (0)
Client Monies Service	09/03/15	People	Limited	Adequate	30 (16)	0 (0)	24 (15)	6 (1)
Redbridge Community School	02/04/15	People	N/A	N/A	6 (6)	4 (4)	2 (2)	0 (0)
Integrated Family Assessment & Intervention Service – Contact Scheme	02/04/15	People	Limited	Limited	27 (13)	21 (10)	6 (3)	0 (0)

5. Executive Summaries of new reports published concluding a ‘Limited’ or ‘No’ assurance opinion

Client Monies Service		
<p>Directorate Sponsor: People</p> <p>Key Contacts: Prisca Mascerenhas (Business Manager), Dave Cuerden (Finance Manager), Adele Whitear (Principle Accountant)</p> <p>Final Report Issued: 09 March 2015</p>	<p>Assurance opinion:</p> 	<p>Management Actions:</p> 
<p>Summary of key observations:</p> <p>The Client Money Service (CMS) team are responsible for approx. 400 cases. At the time of the audit 40 cases (10%) were for clients holding in excess of £16k. There is an agreement with Hampshire County Council to deal with cases exceeding £16k however these are not being referred promptly therefore the agreement is not being used to its full potential or vfm achieved. As a consequence the workload of the CMS team is unnecessarily overburdened.</p> <p>The CMS team are taking legal responsibility to manage client’s affairs but due to workloads are doing so on a reactive basis and not necessarily to the required extent or on a timely basis. There is no facility to reconcile each case individually, or to easily identify cases where there has been no financial movement and require attention. Summary level reconciliations take place but this does not confirm each client has received and paid the appropriate amounts.</p> <p>Testing identified payments from clients accounts are not always adequately supported with appropriate paperwork and financial changes in circumstance are not always promptly actioned.</p>		

Integrated Family Assessment & Intervention Service (IFAIS) – Facilitated Contact Scheme		
<p>Directorate Sponsor: People</p> <p>Key Contacts: Therese Leavy (Interim Head of Service), Claire Robinson (Service Manager)</p> <p>Final Report Issued: 02 April 2015</p>	<p>Assurance opinion:</p> <div style="text-align: center;">  <p>Limited</p> </div>	<p>Management Actions:</p> <div style="text-align: center;">  </div>
<p>Summary of key observations:</p> <p>Discussions with key staff confirmed that responsibilities are clearly defined and understood, however, there are no documented standard operating procedures in place.</p> <p>Review of staff productivity figures found large fluctuations and highlighted that some staff are potentially spending a large proportion of their time on activities such as administration and travel. In addition, testing found that the first contact session was more than two weeks (being the service KPI) after the date of referral in a majority of cases.</p> <p>A signed 'Contract of expectation for supervised contact' is held for all clients; however, there are uncertainties and inconsistencies with regard retention and scanning on to the system.</p> <p>There is no consistent approach to the review of contact arrangements to ensure they remain appropriate and the review of cases is not formally documented.</p>		

6. Fraud and Irregularities

In accordance with the Local Government Transparency Code 2014 there is a requirement on local authorities to publish the following information with regard counter fraud work:

Local Government Transparency Code 2014	01.04.14 – 31.03.15
Part 2 Requirements - Fraud	
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 the summer 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 (one of only 59 approved from 164 applications) has 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. Planning & Resourcing

The internal audit plan for 2014/15 was approved by the Council's Management Team and the Governance Committee in April 2014.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 8

8. Rolling Work Programme

Audit title	Audit Progress					Final report issued
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued		
2013-14 Carry Forward Reviews						
Partnership arrangements	✓	✓	✓	✓		01/08/14
Information Governance	✓	✓	✓	✓		17/07/14
Business Continuity & Emergency Planning	✓	✓	✓	✓		09/07/14
Change control	✓	✓	✓	✓		27/05/14
Across Schools Thematic Review 1 (payroll)	✓	✓	✓	✓		12/11/14
Data and performance management – Support Services	✓	✓	✓	✓		30/07/14
Itchen Bridge	✓	✓	✓	✓		31/07/14
Delivery of statutory functions - Family Centres and children centres	✓	✓	✓	✓		27/06/14
Client Monies Services	✓	✓	✓	✓		09/03/15
Reablement	✓	✓	✓	✓		30/07/14
Learning and Development	✓	✓	✓	✓		05/09/14

Audit title	Audit Progress					Final report issued
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued		
Fostering	✓	✓	✓	✓	09/01/15	
Public Health Contracts	✓	✓	✓	✓	20/11/14	
Public Health	✓	✓	✓	✓	06/06/14	
2014-15 Reviews						
Corporate Cross Cutting						
Transformation	✓	✓	✓	N/A	N/A	
Health and Safety	✓	✓	✓	✓	22/09/14	
Human Resources	✓	✓	✓	✓		
Procurement	✓	✓	✓	✓	02/02/15	
Corporate Governance						
Annual Governance Statement	✓	✓	✓	✓	N/A	
Fraud Thematic Review – Housing Office Security/Cash Handling	✓	✓	✓	✓	23/10/14	
Fraud Thematic Review – Imprest / Decorating Voucher Scheme	✓	✓	✓	✓	10/12/14	
Precautions against fraud	N/A	✓	✓	N/A	N/A	

Audit title	Audit Progress					Final report issued
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued		
Reactive Fraud	N/A	✓	N/A	N/A	N/A	N/A
National Fraud Initiative	N/A	✓	N/A	N/A	N/A	N/A
Effectiveness of the Role of Internal Audit	✓	✓	✓	✓		14/07/14
Financial Management						
Teachers Pensions - annual claim (TR17)	✓	✓	✓	N/A		02/04/15
Council Tax (including council tax support)	✓	✓	✓	✓		
Income Collection and Transactions	✓	✓				
Accounts Receivable	✓	✓	✓			
Financial Management (budget monitoring)	✓	✓				
Treasury Management	✓	✓				
Value Added Tax	✓	✓	✓	✓		
Bank account change/control	✓	✓	✓			
ICT						
Capacity Planning and Management	✓	✓	✓	✓		26/01/15

Audit title	Audit Progress					Final report issued
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued		
Capita development days / Capita Contract Management	✓	✓				
Data Centre Security	✓	✓	✓	✓		16/07/14
Corporate Priorities						
Building control	✓	✓	✓	✓		07/10/14
General school reviews – Maytree Infant and Nursery School	✓	✓	✓	✓		12/11/14
General school reviews – Redbridge Community School	✓	✓	✓	✓		02/04/15
Across Schools Thematic Review - Procurement Cards 14/15	✓	✓	✓	✓		12/11/14
Across Schools Thematic Review – Governance 14/15	✓	✓	✓			
Transport	✓	✓	✓	✓		
Integrated Commissioning Unit	✓	✓				
Contact scheme	✓	✓	✓	✓		
MASH - Multi Agency Safeguarding Hub	✓	✓	✓	✓		
MARP - Multi Agency Resource Panel	✓	✓	✓	✓		
SFVS - School Financial Value Standards	✓	✓	✓	N/A		N/A

Audit title	Audit Progress					Final report issued
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued		
School Capital programme	✓	✓	✓	✓		
Street Lighting PFI	✓	✓	✓	✓		27/10/14
Housing - stock control	✓	✓	✓			
Housing allocation policy	✓	✓	✓			
City Deal	✓					
Better Care Fund	✓	✓	✓			
Delivery of statutory functions - LADO – Local Authority Duty Officer	✓	✓	✓	✓		04/03/15
Families Matters Governance	✓	✓	✓	✓		
Families Matters grant claims	N/A	✓	✓	N/A		N/A
Financial Assessment Process	✓	✓	✓	✓		
Contribution and charging policies	✓	✓	✓	✓		
Direct payments	✓	✓	✓	✓		
PARIS (Advice role)	✓	✓	✓	N/A		N/A
Local Safeguarding Children’s Board	✓	✓	✓	✓		13/11/14

Audit title	Audit Progress					Final report issued
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued		
Delivery of statutory functions - EDT – Emergency Duty team	✓	✓	✓	✓		
Public Health	✓	✓				
Miscellaneous Reviews						
BEEMS	✓	✓	✓	N/A		N/A
PUSH	✓	✓	✓	✓		11/07/14

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