

Governance Committee

Monday, 25th April, 2016
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Council Chamber - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Barnes-Andrews (Chair)
Councillor Daunt
Councillor Inglis
Councillor Jordan
Councillor Noon
Councillor O'Neill
Councillor Keogh

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.

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

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. By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.

Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.

Details of the Council's Guidance on the recording of meetings is available on the Council's website.

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 2015/16

2015	2016
15 June	8 February
14 September	25 April
9 November	
14 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 - 4)

To approve and sign as a correct record the Minutes of the meeting held on 8th February 2016 and to deal with any matters arising, attached.

5 ANNUAL REVIEW OF THE CONSTITUTION

(Pages 5 - 8)

Report of the Service Director: Legal and Governance reviewing and updating the Council's Constitution.

6 CODE OF CORPORATE GOVERNANCE - ANNUAL REVIEW

(Pages 9 - 18)

Report of the Monitoring Officer following review of the Code of Corporate Governance.

7 INTERNAL AUDIT PROGRESS REPORT (MARCH 2016)

(Pages 19 - 38)

Report the Chief Internal Auditor detailing a status report on the Internal Audit progress to the Committee.

8 INTERNAL AUDIT PLAN 2016-17

(Pages 39 - 52)

Report of the Chief Internal Auditor detailing the Internal Plan for the 206-2017 municipal year.

9 INTERNAL AUDIT CHARTER 2016-17

(Pages 53 - 64)

Report of Chief Internal Auditor seeking approval for the Internal Audit Charter.

10 EXTERNAL AUDIT PLAN YEAR ENDING 31 MARCH 2016

(Pages 65 - 86)

Report of Chief Internal Auditor detailing for approval the External Audit Plan.

Friday, 15 April 2016

Service Director, Legal and Governance

GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 8 FEBRUARY 2016

Present: Councillors Barnes-Andrews (Chair), Keogh (Vice-Chair), Daunt, Inglis, Jordan and Noon

Apologies: Councillor O'Neill

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

RESOLVED: that the minutes for the Committee meeting 14th December 2015 be approved and signed as a correct record.

30. **PRUDENTIAL LIMITS AND TREASURY MANAGEMENT STRATEGY 2016/17 TO 2018/19**

The Committee considered the report of Council's Chief Financial Officer detailing the context within which the Council's treasury management activity operates and setting out a proposed strategy for the coming year.

RESOLVED that the Committee:

- (i) endorsed the Treasury Management (TM) Strategy for 2016/17 as outlined in the report;
- (ii) endorsed the 2016 Minimum Revenue Provision (MRP) Statement as detailed in paragraphs 77 to 835;
- (iii) noted that the indicators as reported have been set on the assumption that the recommendations in the Capital update report will be approved by Council on 10 February 2016. Should the recommendations change, the Prudential Indicators may have to be recalculated; and
- (iv) noted that due to the timing of this report, changes may still be required following the finalisation of capital and revenue budgets and therefore any significant changes to this report will be highlighted in the final version that is presented to Full Council.

31. **ANNUAL GOVERNANCE STATEMENT**

The Committee considered the report of the Chief Financial Officer seeking to approve the assurance gathering process to support the development of the 2015-16 Annual Governance Statement and to note the content of the 2014-15 Action Plan.

The Panel noted that the timelines for the 2015-16 had been adjusted from those set out in Appendix 1 of the Report. It was noted that the Statement was now scheduled to be signed by the Chief Executive and the Leader of the Council on 31st July 2016. The Committee noted that there would be an opportunity to review and sign off the final draft before this date.

RESOLVED that the Committee:

- (i) noted and approved the assurance gathering process to support the development of the 2015-16 Annual Governance Statement set out in Appendix 1, as amended at the meeting; and
- (ii) noted the content of the Annual Governance Statement 2014-15 Action Plan - Status Report (Appendix 2).

32. **EXTERNAL AUDIT PROGRESS REPORT - JANUARY 2016**

The Committee noted the report of the Chief internal Auditor detailing the January 2016 progress report for external audit activity against the agreed audit plan set out in Appendix 1 of the report.

33. **CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2014-15**

The Committee noted the report of the Chief Internal Auditor summarising the External Auditor's annual report on the Certification of Claims and Returns 2014/15 as set out as Appendix 1 to the report.

34. **REVISIONS TO THE CONSTITUTION – TRANSFORMATION PROJECTS**

The Committee considered the report of the Service Director: Legal and Governance regarding revisions to various elements of the Constitution as part of the Council's significant Transformation agenda in order to enable early decision making which will permit quicker project implementation and realisation of financial savings).

RESOLVED that the Governance Committee recommended that Council approve the following revisions to the Constitution as set out in this report:

- revise section 5 of the Officer Scheme of Delegation (Transformation Implementation Director) stating “***The Transformation Implementation Director, following consultation with the Transformation Improvement Board, Chief Finance Officer and Head of Legal and Democratic Services, shall be empowered to take all decisions or actions necessary to develop, implement and deliver transformation projects approved by the Transformation Board up to a value of £5,000,000 including but not limited to incurring expenditure, structural re-organisations, service reorganisations and entering into contracts and partnership arrangements to deliver services as required together with all ancillary matters necessary to give effect to or conducive to the delivery of such projects. All proposals which are estimated to exceed £500,000 shall be considered by Cabinet. The £5,000,000 ceiling requiring reference to full Council is waived for such proposals.***”;
- amend the Budget and Policy Framework Procedure Rules at page 6 (section 5(b) to add “***(iii) The Transformation Implementation Director, following consultation with Transformation Improvement Board and Chief Finance Officer, shall be entitled to vire across budget heads where each individual virement does not exceeds £5,000,000 for the purpose of delivering any transformation project;*** and
- amend Financial Procedure Rules with an additional row in the tables at A12, B37 and B42 (HRA matters) stating “***any amount not exceeding £5,000,000 relating to a transformation project approved as above can be vired /***

approved by the Transformation Implementation Director following consultation with the Transformation Improvement Board (including virement of expenditure and income budgets and acceptance of external funding).

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Agenda Item 5

DECISION-MAKER:	GOVERNANCE COMMITTEE COUNCIL		
SUBJECT:	ANNUAL REVIEW OF THE CONSTITUTION		
DATE OF DECISION:	25 APRIL 2016 (GOVERNANCE COMMITTEE) 18 MAY 2016 (COUNCIL)		
REPORT OF:	SERVICE DIRECTOR: LEGAL AND GOVERNANCE		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail:	Richard.ivory@southampton.gov.uk	
Director	Name:	Suki Sitaram	Tel: 023 80
	E-mail:	Suki.sitaram@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
None.	
BRIEF SUMMARY	
<p>This report sets out the annual review of the Constitution. This will be considered and initially discussed by Governance Committee on 25th April 2016. The recommendations to both the Governance Committee and Council are included below. As ever the Constitution is a document that changes regularly and therefore further revisions may be proposed prior to or at Council.</p>	
RECOMMENDATIONS:	
Governance Committee	
	(i) To consider and recommend the changes to the Constitution to Council for adoption.
Council	
	(ii) to agree the changes to the Constitution and associated arrangements as set out in this report;
	(ii) to authorise the Service Director: Legal & Governance to finalise the arrangements as approved by Full Council and make any further consequential or minor changes arising from the decision of Council;
	(iii) to approve the City Council's Constitution, as amended, including the Officer Scheme of Delegation for the municipal year 2016/17;
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 amend or reject some or all of them.
DETAIL (Including consultation carried out)	
<u>Officer Scheme of Delegation – Current Position and Possible Revisions</u>	
3.	Prior to this report being drafted and as part of the Senior Management restructure the Officer Scheme of Delegated Powers has been substantially revised to reflect the revised service amalgamations and changes. No new powers have been added by virtue of this alone. The revised scheme was published online on 30 th March 2016.
4.	As part of the annual review officers and Group Leaders have been consulted over what changes may be appropriate to aid business efficiency but retain overarching oversight and, where necessary, discrete consultation with the appropriate Cabinet Member or Chair.
5.	At the date of this report limited revisions have been proposed, most are points of clarity. These are all laid out, track changed, in the draft revised Constitution a link for which is listed below. Officers continue to review items such as the Financial Procedure Rules and, for example, financial thresholds within the Scheme of Delegation. If possible and practical an oral update will be given to Governance Committee on further proposals.
<u>Council Procedure Rules – Speaking at Council - Aldermen</u>	
6.	Over the past few years Council has conferred the honorary title of Alderman on several former members. Some of these now regularly wish to speak on agenda items at Council meetings whereas in the past this was rare. Currently it is left to the Mayor, as chair of the meeting, to advise on the length of time permitted on any one speech; there is nothing in the Constitution. In light of this change, which is likely to continue, it is considered appropriate to add in a specific paragraph limiting any speech on an item to 5 minutes maximum and 15 minutes at any one meeting.
<u>Access to Information Procedure Rules -</u>	
7.	Addition of para (25.1 (d) to allow confidential information to be shared with the Designated Independent Person (in respect of Members complaints under the Code of Conduct).
<u>Civic and Ceremonial Protocol</u>	
8.	Minor practical revisions have been made to the protocol to reflect the revised business support arrangements. It does not intrinsically affect the discrete support of the Mayor and Sheriff.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
9.	None.

<u>Property/Other</u>	
10.	None.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
11.	The Executive Arrangements and Constitution are required under the Local Government Act 2000 (as amended) and the Localism Act 2011.
<u>Other Legal Implications:</u>	
12.	None.
POLICY FRAMEWORK IMPLICATIONS	
13.	None.

KEY DECISION?	n/a
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Council Procedure Rules (with track changes)
2.	Access to Information Procedure Rules (with track changes)
3.	Civic & Ceremonial Procedure Rules (with track changes)
4.	Officer Scheme of Delegation (with track changes)
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
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) 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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Agenda Item 6

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	CODE OF CORPORATE GOVERNANCE – ANNUAL REVIEW		
DATE OF DECISION:	25 APRIL 2016		
REPORT OF:	SERVICE DIRECTOR: LEGAL AND GOVERNANCE		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail:	Richard.ivory@southampton.gov.uk	
Director	Name:	Suki Sitaram	Tel: 023 8083 2060
	E-mail:	Suki.sitaram@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
N/A			
BRIEF SUMMARY			
<p>The Code of Corporate Governance sets out the commitment of Southampton City Council to continue to uphold the highest possible standards of good governance. The intention is that the Service Director: Legal & Governance continues with the “light touch” annual review unless earlier review is required</p>			
RECOMMENDATIONS:			
	(i)	To note and approve the updated Code of Corporate Governance (“CCG”) (Appendix 1) and that the Committee receive a further report following the publication of the updated CIPFA guidance.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	The Governance Committee has responsibility for leading on all aspects of Corporate Governance by promoting the values of putting people first, valuing public service and creating a norm of the highest standards of personal and professional conduct.		
2.	The Governance Committee is also responsible for ‘receiving regular reports on the performance of the Corporate Complaints process, Local Government Ombudsman referrals, Annual Governance Statement and Code of Corporate Governance and to recommend revisions to related policies and procedures as appropriate’.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
3.	No alternative options have been considered.		
DETAIL (Including consultation carried out)			
4.	Corporate Governance is 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 local government		

	bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities' <i>*Source: Delivering Good Governance in Local Government - Framework (CIPFA, 2007)</i>
5.	The CCG is based around six core principles which were identified in the Chartered Institute of Public Finance and Accountancy ("CIPFA") and the Society of Local Authority Chief Executives and Senior Managers ("SOLACE") 'Delivering Good Governance in Local Government: Framework and accompanying Guidance Note' which was originally published in 2007'.
6.	The CCG has been updated to reflect current arrangements however it should be noted that CIPFA is shortly to be issuing an updated 'Delivering Good Governance in Local Government (2016)' guidance. It is understood that this document will provide guidance on producing the local code of corporate governance, the Annual Governance Statement, as well as the process of undertaking the review of governance. It is therefore anticipated that the CCG will require further revision in order to ensure that it remains aligned with good practice.
7.	In addition, one of the key actions arising from the 2011-12 Annual Governance Statement was a recognition that "A biennial review is no longer considered appropriate in terms of being able to reflect significant changes in legislation that potentially impact on the CCG. The CCG will therefore to be subject to an annual 'light touch' review as part of the review of the Constitution".
8.	The minimally revised CCG (Appendix 1) reflects the current best practice guidance.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
9.	None.
<u>Property/Other</u>	
10.	None.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
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.
<u>Other Legal Implications:</u>	
12.	None.
POLICY FRAMEWORK IMPLICATIONS	
13.	None.

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Code of Corporate Guidance (CCG)
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
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) 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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CODE OF CORPORATE GOVERNANCE



What is Corporate Governance?

Corporate governance comprises the systems and values by which councils are directed and controlled and through which they are accountable to and engage with their communities.

To demonstrate compliance with the principles of good corporate governance, Southampton City Council must ensure that it does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

“Delivering Good Governance in Local Government (2012)”

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) have published a framework and guidance notes entitled, “*Delivering Good Governance in Local Government*” (the CIPFA / SOLACE Framework”). This provides guidance to local authorities on how to establish a locally adopted code of corporate governance.

Southampton City Council is committed to applying the six core principles of good governance set out in the CIPFA / SOLACE Framework of:

- Focusing on the purpose of the authority and on the outcomes for the community and creating and implementing a vision for the local area.
- Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- Developing the capacity and capability of members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability.

What is the purpose of this Code of Corporate Governance?

Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing risk.

Southampton City Council has a robust Constitution and associated governance documents and arrangements in place. Together, they demonstrate that the Council is committed to ensuring that a robust governance framework is in place and one that reflects the core principles of the CIPFA / SOLACE Framework.

The purpose of this Code of Corporate Governance is therefore to provide a simple document with, where appropriate, hyperlinks to relevant documents relating to governance which are available free of charge on the Council’s website.

PRINCIPLE 1: Focusing on the purpose of the authority and the outcomes for the community and creating and implementing a vision for the local area.	
Supporting Principles	Evidence
1. Exercising strategic leadership by developing and clearly communicating the Council's purpose and vision and its intended outcome for citizens and service users.	<ul style="list-style-type: none"> • Southampton City Council Strategy 2014-17 • Southampton Connect - Southampton City Strategy 2015-2025 • Local Development Plans
2. Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning.	<ul style="list-style-type: none"> • Southampton City Council Strategy 2014-17 • Southampton Connect - Southampton City Strategy 2015-2025 • Southampton City Council Customer Strategy 2015-2018 • Council Constitution (Part 5) – Partnership Code • Comments, complaints and compliments process • Council Performance data • Procurement Strategy
3. Ensuring that the Council makes best use of resources and that tax payers and service users receive excellent value for money.	<ul style="list-style-type: none"> • Medium Term Financial Strategy • Southampton City Council - Budget Book • Statement of Accounts • Annual Governance Statement (Part of the Statement of Accounts) • Annual Audit Letter • Council Constitution (Part 4) – Financial Procedure Rules • Council Constitution (Part 4) – Budget Policy Framework Procedure Rules • Council Constitution (Part 4) – Contract Procedure Rules • Transparency and Publication of Data • Decision Making Guidance and Information • Council Performance data • Budget Consultation Process • Housing Revenue Account Budget Report & Business Plan

PRINCIPLE 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles.	
Supporting Principles	Evidence
1. Ensuring effective leadership throughout the Council and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function.	<ul style="list-style-type: none"> • Council Constitution (Part 4) – Overview & Scrutiny Terms of Reference • Council Constitution (Part 3) – Roles and Responsibilities of Senior Officers • Council Constitution (Part 4) – Overview and Scrutiny Procedure Rules • Council Constitution (Part 5) – Officer Member Protocol • Council Constitution (Part 5) - Members' Code of Conduct
2. Ensuring that a constructive working relationship exists between Council Members and officers and that the responsibilities of Members and officers are carried out to a high standard.	<ul style="list-style-type: none"> • Council Constitution (Part 5) – Officer Member Protocol • Council Constitution (Part 5) - Members' Code of Conduct • Council Constitution (Part 5) Officers Code of Conduct
3. Ensuring relationships between the Council, its partners and the public are clear so that each knows what to expect of the other	<ul style="list-style-type: none"> • Council Constitution (Part 5) Partnership Code • Comments, complaints and compliments process • Southampton City Council Customer Strategy 2015-2018

PRINCIPLE 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.	
Supporting Principles	Evidence
1. Ensuring Council Members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance	<ul style="list-style-type: none"> • Council Constitution (Part 5) - Members' Code of Conduct including Register of Interests • Council Constitution (Part 5) – Officer Member Protocol • Officer Code of Conduct including register of Gifts and Hospitality • Regulation of Investigatory Powers Act 2000 • Corporate Surveillance Guidance • Whistleblowing - Duty to Act Policy • Council Constitution (Part 4) – Financial Procedure Rules
2. Ensuring that organisational values are put into practice and are effective.	<ul style="list-style-type: none"> • Council Constitution (Part 4) – Executive Procedure Rules • Council Constitution (Part 10) – Officer Scheme of Delegation • Southampton City Council Strategy 2014-17 • Transparency and Publication of Data • 'Have your say' - webpage (e-petitions, consultations and People's Panel)

	<ul style="list-style-type: none"> • Southampton Compact - Code of Good Practice between Statutory, Community and Voluntary organisations
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PRINCIPLE 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.	
Supporting Principles	Evidence
<ul style="list-style-type: none"> • Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny 	<ul style="list-style-type: none"> • Council Constitution – (Part 4) – Council Procedure Rules • Council Constitution (Part 4) – Overview Scrutiny Procedure Rules • Council Constitution (Part 3) – Responsibility for Functions: Terms of Reference – Overview & Scrutiny • Regulation of Investigatory Powers Act 2000 • Corporate Surveillance Guidance • Data Protection Policy • Comments, complaints and compliments process • Freedom of Information and Publication Scheme • Transparency and Publication of Data
<ul style="list-style-type: none"> • Having good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants or needs 	<ul style="list-style-type: none"> • Council Constitution (Part 2) – Decision Making • Council Constitution (Part 4) – Executive Procedure Rules • Council Constitution (Part 10) – Officer Scheme of Delegation • Southampton City Council Strategy 2014-17 • Southampton Connect - Southampton City Strategy 2015-2025 • 'Have your say' - webpage (e-petitions, consultations and People's Panel) • Transparency and Publication of Data
<ul style="list-style-type: none"> • Ensuring that an effective risk management system is in place 	<ul style="list-style-type: none"> • Risk Management Policy & Strategy • Strategic Risk Register • Council Constitution - (Part 3) Governance Committee Terms of Reference • Local Flood Risk Management Strategy • Annual Audit Letter
<ul style="list-style-type: none"> • Using the Council's legal powers to the full benefit of the citizens and communities in the City 	<ul style="list-style-type: none"> • Council Constitution - (Part 5) – Monitoring Officer Protocol
PRINCIPLE 5: Developing the capacity and capability of members and officers to be effective.	
Supporting Principles	Evidence
<ol style="list-style-type: none"> 1. Making sure that Members and officers have the skills, knowledge, experience 	<ul style="list-style-type: none"> • Member User Group • Workforce Strategy (draft)

and resources they need to perform well in their roles.	<ul style="list-style-type: none"> • Equality Policy and Action Plan • Manager's Toolkit
2. Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group.	<ul style="list-style-type: none"> • Member User Group • Councillor Personal Development Plan • Manager's Toolkit • Workforce Strategy (draft)
3. Encouraging new talent for membership of the Council so that best use can be made of individuals' skills and resources in balancing continuity and renewal.	<ul style="list-style-type: none"> • Equality Policy and Action Plan • Workforce Strategy (draft) • Councillor Personal Development Plan

PRINCIPLE 6: Engaging with local people and other stakeholders to ensure robust public accountability.	
Supporting Principles	Evidence
1. Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships	<ul style="list-style-type: none"> • Council Constitution (Part 4) – Overview Scrutiny Procedure Rules • Southampton City Council Strategy 2014-17 • 'Have your say' - webpage (e-petitions, consultations and People's Panel) • Council Constitution (Part 5) Partnership Code • Equality Policy and Action Plan • Southampton Compact - Code of Good Practice between Statutory, Community and Voluntary organisations
2. Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the Council, in partnership or by commissioning.	<ul style="list-style-type: none"> • Southampton City Council Strategy 2014-17 • Budget Consultation Process • Medium Term Financial Strategy • Equality Policy and Action Plan • Council Constitution (Part 5) Partnership Code • Transparency and Publication of Data • 'Have your say' - webpage (e-petitions, consultations and People's Panel)
3. Making best use of human resources by taking an active and planned approach to meet responsibility to staff.	<ul style="list-style-type: none"> • Workforce Strategy (draft) • Equality Policy and Action Plan

Monitoring and Review

The Council will monitor the arrangements set out in this Code of Corporate Governance for their effectiveness in practice and will review them on a continuing basis to ensure that they are up to date.

Each year the Council will publish an Annual Governance Statement which will explain and assess how the Council has complied with this Code of Corporate Governance and provide details of how continual improvement in the system of internal control will be achieved.

The Governance Committee has responsibility at Member level and the Monitoring Officer has responsibility at officer level for reviewing the corporate governance arrangements set out in this Code of Corporate Governance. Further, the Governance Committee generally considers all processes for risk, control and governance and provides independent, effective assurance about the adequacy of the Council's governance environment and is responsible for promoting and maintaining high standards of probity and conduct of Members and co-opted members.

April 2016

Agenda Item 7

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	INTERNAL AUDIT PROGRESS REPORT (MARCH 2016)		
DATE OF DECISION:	25 APRIL 2016		
REPORT OF:	CHIEF INTERNAL AUDITOR		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Neil Pitman	Tel: 01962 845139
	E-mail:	neil.pitman@hants.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80834897
	E-mail:	Mel.creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
N/A	
BRIEF SUMMARY	
<p>In accordance with the Accounts and Audit (England) Regulations 2015 a relevant body must:</p> <p>‘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’.</p> <p>In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Chief Internal Auditor is required to provide a written status report to the Governance Committee, summarising:</p> <ul style="list-style-type: none"> • progress in implementing the audit plan; • internal audit reviews in progress; • audit opinion on all internal audit reviews completed since the last report and executive summaries of published reports where critical weaknesses or unacceptable levels of risk were identified; and • the status of ‘live’ reports, i.e. those where internal audit work is completed and actions are planned to improve the framework of governance, risk management and management control <p>Appendix 1 summarises the activities of internal audit for the period to March 2016</p>	
RECOMMENDATIONS:	
	(i) That the Governance Committee notes the Internal Audit Progress report to the period March 2016 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 receive the Chief Internal Auditor’s progress report.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	None
DETAIL (Including consultation carried out)	
3.	The internal progress report has been approved by the Council's Management Team
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
4.	None
<u>Property/Other</u>	
5.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
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'.
<u>Other Legal Implications:</u>	
7.	None
POLICY FRAMEWORK IMPLICATIONS	
8.	None

KEY DECISION?	No	
WARDS/COMMUNITIES AFFECTED:		
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Internal Audit Progress Report - March 2016	
Documents In Members' Rooms		
1.	None	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.		No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) 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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Internal Audit Progress Report

March 2016

Southampton City Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

Contents:

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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’ 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

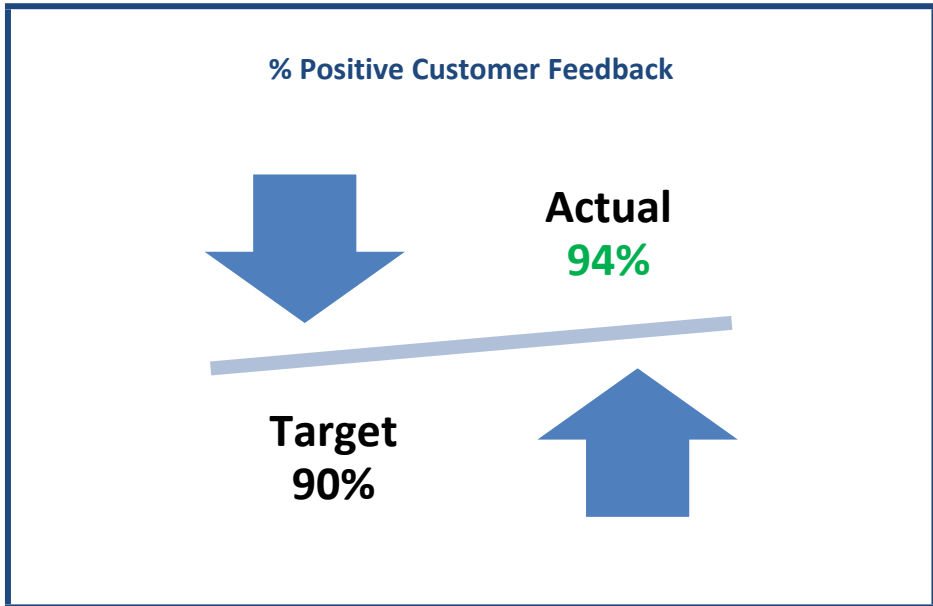
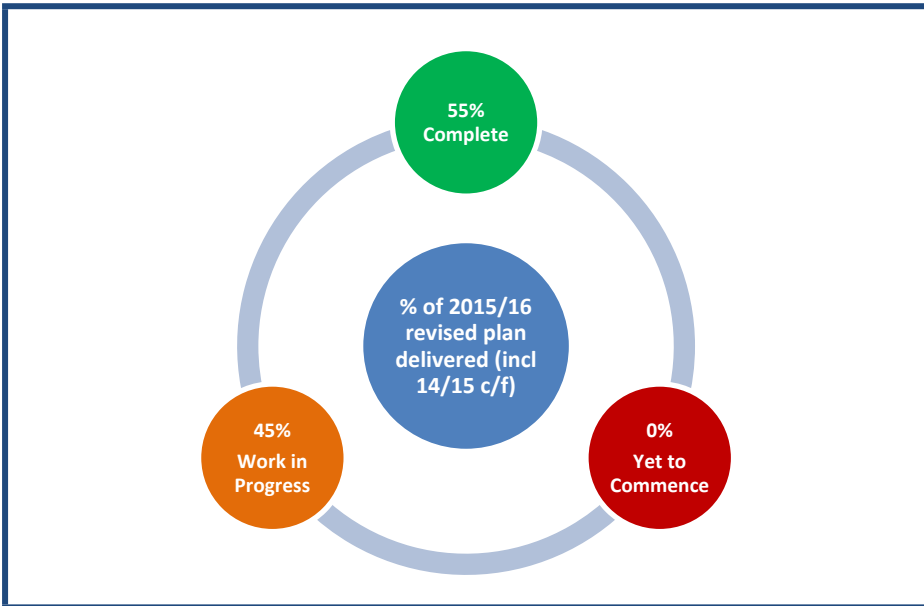
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to ‘Senior Management’ and ‘the Board’, summarising:

- 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 of 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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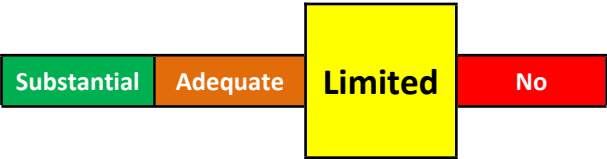
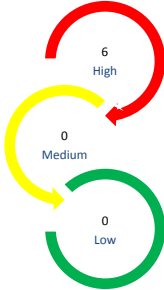
Compliance with Public Sector Internal Audit Standards / Local Government Application Note	
	<p>An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015. The report concluded:</p> <p><i>'It is our view that the Southern Internal Audit Partnership 'generally conforms' (top grading) to all of the principles contained within the International Professional Practice Framework (IPPF); Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).</i></p>

4. Status of 'Live' Reports

Audit Review	Report Date	Directorate Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Quality Assurance	18/07/13	People	Adequate	15 (9)	0 (0)	0 (0)	13 (7)	2 (2)
Payroll	04/04/14	Corporate Services	Adequate	11 (4)	0 (0)	0 (0)	7 (4)	4 (0)
Income Collection and Transactions	09/05/14	Corporate Services	Adequate	6 (0)	0 (0)	0 (0)	5 (0)	1 (0)
Information Governance	17/07/14	Corporate Services	Limited	21 (15)	0 (0)	0 (0)	17 (13)	4 (2)
Integrated Assessment–Data Performance	30/07/14	People	Adequate	3 (3)	0 (0)	0 (0)	2 (2)	1 (1)
Itchen Bridge	31/07/14	Place	Adequate	10 (5)	0 (0)	0 (0)	9 (5)	1 (0)
Health and Safety	22/09/14	Corporate Services	Limited	16 (14)	0 (0)	0 (0)	10 (8)	6 (6)
Across Schools Thematic Review (Payroll)	12/11/14	People	Limited	9 (0)	0 (0)	0 (0)	8 (0)	1 (0)
Client Monies Service	09/03/15	People	Limited	30 (16)	0 (0)	0 (0)	27 (16)	3 (0)
Transport	15/06/15	People	Adequate	8 (1)	0 (0)	0 (0)	6 (1)	2 (0)

Audit Review	Report Date	Directorate Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Housing allocation policy	03/07/15	People	Adequate	6 (0)	0 (0)	0 (0)	1 (0)	5 (0)
Financial Assessment Process	13/07/15	People	Limited	32 (22)	0 (0)	2 (0)	28(21)	2 (1)
Contribution and charging policies	13/07/15	People	Limited	11 (8)	0 (0)	0 (0)	10 (8)	1 (0)
Housing - stock control	30/07/15	People	No	44 (11)	0 (0)	0 (0)	37 (11)	7 (0)
Accounts Receivable/Debt Management	08/10/15	Corporate Services	Adequate	8 (1)	0 (0)	1 (0)	7 (1)	0 (0)
Human resources - Pay and allowances	13/10/15	Corporate Services	Adequate	4 (2)	0 (0)	2 (1)	2 (1)	0 (0)
Establishment reviews – Glenlee	26/01/2016	People	Limited	17 (15)	0 (0)	0 (0)	14 (13)	3 (2)
IT disaster recovery	22/02/2016	Corporate Services	Limited	12 (3)	0 (0)	5 (2)	7 (1)	0 (0)
Across Schools Thematic Review - Payroll	09/03/2016	Children & Families	Adequate	4 (1)	0 (0)	4 (1)	0 (0)	0 (0)
Human Resources – sickness monitoring	18/03/2016	Corporate Services	Adequate	15 (10)	0 (0)	3 (0)	12 (10)	0 (0)
HMO Licencing	22/03/2016	Transactions & Universal Services	Adequate	14 (8)	0 (0)	13 (7)	1 (1)	0 (0)

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

<p>Multi Agency Resource Panel (MARP)</p>		
<p>Directorate Sponsor: Chief Executive</p> <p>Key Contacts: Kim Drake – Director of Childrens, Stephanie Ramsey – Director of Quality & Integration, Robert South – Interim Principle Officer for Looked After Children & Resources</p> <p>Final Report Issued: 06 January 2016</p>	<p>Assurance opinion:</p> 	<p>Management Actions:</p> 
<p>Summary of key observations:</p> <p>The Multi Agency Resource Panel (MARP) considers recommendations received for the placement of children and young people in care and/or with complex needs. The panel consists of representatives from Health, Education and Social Care. The aim of MARP is to ensure that the needs of children and young people are appropriately considered in placement decisions, with decisions documented to enable transparency and accountability.</p> <p>‘Transition MARP’ considers the cases for 14 – 18 year olds and the plans in place for transition from Children’s to Adult Social Care and therefore requires the attendance of all relevant parties, however attendance by a suitable representative from Adult Services was inconsistent, thereby potentially delaying decisions.</p> <p>The Integrated Commissioning Unit (ICU) are responsible for undertaking provider checks prior to placements being made ensuring a suitable contract or agreement is in place with the provider. At the time of the review only 10/58 contracts or agreements were in place for the cases tested. Checks to ensure that providers had a suitable Ofsted rating were being carried out however, other checks, such as financial checks, were not undertaken</p> <p>Invoices for care packages are received and paid for by the Council, generally against social care budgets, with an apportioned amount cross charged to Education or invoiced to Health however, at the time of the review, no invoices had been raised since April 2014 resulting in lost income to the City Council.</p> <p>All management actions to mitigate identified risks have been actioned.</p>		

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IT Disaster Recovery		
<p>Directorate Sponsor: Chief Financial Officer</p> <p>Key Contacts: Kevin Foley – Head of IT</p> <p>Final Report Issued: 22 February 2016</p>	<p>Assurance opinion:</p> <div style="text-align: center;"> </div>	<p>Management Actions:</p> <div style="text-align: center;"> </div>
<p>Summary of key observations:</p> <p>The systems and associated data which are included in the recovery processes delivered by Capita are documented in a Disaster Recovery Invocation Manual. However, at the time of the review, this was out of date and some systems detailed in the plan were no longer covered by the DR process. Six systems had been removed from the plan in 2012, supported by an approved contract change document; however there was no evidence that the proposal or decision to remove the systems from the DR plan had been considered by CMT or the relevant system owners. In addition, there are no plans to revisit systems excluded from the DR plans to assess if their exclusion was still appropriate.</p> <p>Data included in the DR provision is cloned every 6 hours from the Civic Centre Data Centre to equipment located offsite. The review found incidences where no data had been backed up/cloned in July 2015 and another occurrence where the cloning process was not operating correctly, increasing the risk of data loss in the event of system failure and subsequent recovery. There were also physical security issues with the offsite location.</p> <p>No DR testing had taken place for almost three years. We could not find evidence of consideration, completion and follow up of the improvements and recommendations identified during the exercises undertaken in 2010, 2011 and 2012.</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	01.04.2015 – 13.03.2016
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	4 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	63 days
Total number of fraud cases investigated	2 **

*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 etc.)

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

7. Planning & Resourcing

The internal audit plan for 2015/16 was approved by the Council's Management Team and the Governance Committee in April 2015.

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 Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
2015-16 Reviews (incl. 2014-15 Carry Forward)									
Council Tax (including council tax support)		✓	✓	✓	✓	✓	Adequate	✓	
Income Collection and Transactions		✓	✓	✓	✓	✓	Substantial	✓	
Accounts Receivable/Debt Management		✓	✓	✓	✓	✓	Adequate	✓	
Treasury Management		✓	✓	✓	✓	✓	Substantial	✓	
Bank account control and change		✓	✓	✓	✓	✓	Substantial	✓	
Capita development days / Capita Contract Management		✓	✓	✓	✓	✓	Adequate	✓	

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✘ Delay)	Comment
Across Schools Thematic Review – Governance 14/15		✓	✓	✓	✓	✓	Limited	✓	
Transport		✓	✓	✓	✓	✓	Adequate	✓	
School Capital programme		✓	✓	✓	✓	✓	Adequate	✓	
Housing - stock control		✓	✓	✓	✓	✓	No	✓	
Housing allocation policy		✓	✓	✓	✓	✓	Adequate	✓	
City Deal		✓	✓	✓	✓	✓	Adequate	✓	
Better Care Fund		✓	✓	✓	✓	✓	n/a	✓	
Financial Assessment Process		✓	✓	✓	✓	✓	Limited	✓	
Contribution and charging policies		✓	✓	✓	✓	✓	Limited	✓	
Delivery of statutory functions - EDT – Emergency Duty team		✓	✓	✓	✓	✓	Adequate	✓	
Corporate Cross Cutting									
Transformation		✓	✓	✓				✓	
Business Continuity and Emergency Planning		✓	✓	✓				✘	Delayed due to SIAP long term sickness
Health and Safety		✓	✓	✓				✓	

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Human Resources - Pay and allowances		✓	✓	✓	✓	✓	Adequate	✓	
Human Resources - Policies and procedures		✓	✓	✓	n/a	n/a	n/a	✓	
Human Resources - Sickness monitoring		✓	✓	✓	✓	✓	Adequate	✓	
Procurement		✓	✓	✓	n/a	n/a	n/a	✓	Advice role
Corporate Governance									
Annual Governance Statement (Assurance Statement)		-	-	✓	✓	✓	Adequate	✓	
Proactive Fraud Review(s)		-	-	✓	n/a			✓	
National Fraud Initiative		-	-	✓	n/a			✓	
Financial management									
Housing rents and Debt Management		✓	✓	✓	✓			✓	
Income Collection and Transactions		✓	✓					✓	
Accounts Payable		✓	✓	✓				✓	
Financial Management (budget monitoring)		✓	✓	✓	✓	✓	Substantial	✓	

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Main Accounting System		✓	✓	✓	✓			✓	
Payroll		✓	✓	✓	✓			✓	
IT									
IT governance		✓	✓	✓	✓	✓	Substantial	✓	
IT disaster recovery		✓	✓	✓	✓	✓	Limited	✓	
Telecommunications		✓	✓	✓	✓			✓	
Strategic Objectives									
Arts and Heritage		✓	✓	✓				✓	
Across Schools Thematic Review – Compliance with Procurement Rules		✓	✓	✓	✓			✓	
Across Schools Thematic Review - Payroll		✓	✓	✓	✓	✓	Adequate	✓	
Establishment reviews – Holecroft		✓	✓	✓	✓	✓	Limited	✓	
Establishment reviews – Glenlee		✓	✓	✓	✓	✓	Limited	✓	
Safeguarding - Protection and Court Teams (PACT)		✓	✓	✓				✓	

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Integrated Commissioning Unit - Governance		✓	✓	✓	✓			✗	Awaiting management response
Integrated Commissioning Unit – Domiciliary Care Procurement		✓	✓	✓				✓	
SFVS - School Financial Value Standard		✓	✓	✓	n/a	n/a	n/a	✓	
Housing Depot Reviews		✓	✓	✓				✓	
Leisure - contract management		✓	✓	✓				✓	
HMO Licensing		✓	✓	✓	✓	✓	Adequate	✓	
Adoption		✓	✓	✓	✓			✓	
Better Care Fund		✓						✓	
Care Act		✓	✓	✓				✓	
MARP - Multi Agency Resource Panel		✓	✓	✓	✓	✓	Limited	✓	
Families Matters governance review		✓	✓	✓				✓	
Safeguarding - Adults		✓	✓	✓				✓	
Continuing healthcare		✓	✓	✓	✓			✓	

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Contribution and charging policies		✓	✓	✓				✓	
Fostering		✓	✓	✓				✓	
Direct payments		✓	✓	✓				✓	
Quality assurance		✓	✓	✓				✓	
Families Matters grant claim 1		-	-	✓	n/a	n/a	n/a	✓	
Families Matters grant claim 2		-	-	✓	n/a	n/a	n/a	✓	
DOLS		✓	✓	✓				✓	
PUSH		✓	✓	✓	✓	✓	Substantial	✓	
Bitterne Sixth Form – Capital Project		✓	✓	✓	✓	✓	n/a	✓	
Public Health		✓	✓	✓				✓	
LSTF Grant Declarations 13/14		-	-	✓	n/a	n/a	n/a	✓	
LSTF Grant Declarations 14/15		-	-	✓	n/a	n/a	n/a	✓	

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	INTERNAL AUDIT PLAN 2016-17		
DATE OF DECISION:	25 APRIL 2016		
REPORT OF:	CHIEF INTERNAL AUDITOR		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Neil Pitman	Tel: 01962 845139
	E-mail:	neil.pitman@hants.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80834897
	E-mail:	Mel.creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business, activities, systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal Audit focus should be proportionate and appropriately aligned. Currently only medium and high priority reviews are incorporated within the Audit Plan.

All low priority review areas remain within the audit universe and reassessed on an annual basis however are not routinely incorporated in the planning process if continued to be assessed as a low priority.

Other reviews, based on criteria other than risk, may also be built into the work plan. These may include "mandatory" audits or reviews requested or commissioned by management. Any commissioned review must be able to clearly demonstrate a contribution to the audit opinion on risk management, control and governance.

The plan will remain fluid and subject to on-going review and amendment, in consultation with the relevant Service Directors and Audit Sponsors, to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Chief Internal Auditor's continued contact and liaison with those responsible for the governance of the Council.

A key role of internal audit is to objectively examine, evaluate and report on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

A clear objective of the risk based audit approach adopted is to identify any instances of over as well as under control and provide management with a clear articulation of residual risks where existing controls are inadequate.

Whilst it is imperative that internal audit continue to ensure an appropriate control environment exists and is appropriately reported on, the service is ideally positioned and has been appropriately appraised 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 2016/17 as attached
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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
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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.
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Other Legal Implications:

7.	None
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POLICY FRAMEWORK IMPLICATIONS

8.	None
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KEY DECISION?	No	
WARDS/COMMUNITIES AFFECTED:	None	
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Internal Audit Plan 2016-17	
Documents In Members' Rooms		
1.	None	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.		No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) 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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Internal Audit Plan

2016-17

Southampton City Council



Southern Internal Audit Partnership



Assurance through excellence
and innovation

Audit	Audit Sponsor HUB (Service Director)	Strategic / Directorate Risk Registers	Corporate Priority	Audit Needs Assessment	Scope
Transformation	Transformation (Transformation Director)	1,7,8,,9	1,5,7	High	<ul style="list-style-type: none"> Review of new Capital Entity; Programme / project management and benefits realisation
Health and Safety	Transformation (SD Digital & Business Operations)	4	3,7	High	Responsibilities and arrangements for compliance to include new HSE Construction (Design and Management) (CDM) Regulations 2015
Information Governance	Strategic (SD Legal & Governance)	5	3,6,7	High	Outcomes of the Information Commissioner's review and effective implementation of key recommendations
Human Resources	Chief Strategy Officer	3a,3b	1,3,7	High	Implementation of 'digital employee' to encompass temporary and casual workers. Additional focus on DBS checks.
Human resources - Pay and allowances	Chief Strategy Officer	1	1,3,7	Medium	Follow up of the review undertaken in 15/16.
Repairs and maintenance	Operations (SD Growth)	4	4,7	Medium	Schools repairs and maintenance programmes. 16/17 (delivery, prioritisation, H&S, safeguarding)
Annual Governance Statement	Strategic (SD Legal & Governance)		3,7	High	Assurances against self assessment questionnaire.
Proactive fraud initiatives	Strategic (SD Finance & Commercialisation)	1	3,6,7	High	<ul style="list-style-type: none"> Completion of the annual fraud survey. Maintenance of fraud risk registers CIPFA Code of Practice on Managing the risk of Fraud and Corruption Data analytics

Audit	Audit Sponsor HUB (Service Director)	Strategic / Directorate Risk Registers	Corporate Priority	Audit Needs Assessment	Scope
National Fraud Initiatives	Strategic (SD Finance & Commercialisation)	Mandatory	3,6,7	-	<ul style="list-style-type: none"> NFI Matches and enquiries NFI data uploads (2016 data sets)
Reactive fraud and irregularity reviews & advice	All	1	3,6,7	High	<ul style="list-style-type: none"> Provision for special investigations Provision of advice/assistance
Local Government Transparency Code 2014	Strategic (SD Legal & Governance)	5	7	Medium	Compliance with the requirements of the 2014 Act.
Employers Pensions (teachers and LGPS)	Chief Strategy Officer		7	High	Employers responsibilities including enrolment, transfers and calculation of contributions.
Accounts Receivable and debt management	Strategic (SD Finance & Commercialisation)	Key Financial System	7	High	Cyclical review of core financial system, to ensure accurate and timely invoicing, recovery and banking of income due.
Financial Management	Strategic (SD Finance & Commercialisation)	1	7	High	Cyclical review of core financial systems - coverage rotates between strategic financial planning, corporate financial reporting and monitoring and detailed local budget monitoring
NNDR	Strategic (SD Finance & Commercialisation)	Key Financial System	7	High	Cyclical review of core financial systems to ensure accurate and timely billing, collection and banking of NNDR
Housing benefits (inc Council Tax reduction scheme)	Strategic (SD Finance & Commercialisation)	Key Financial System	7	High	Cyclical review of core financial system's processes and controls for housing benefit applications and payments to claimants.
IT Applications & Operating Systems	Transformation (SD Digital & Business Operations)	2,5	7	High	Operating systems and applications are up to date or risks are mitigated if the latest versions are not installed
Network Management and Security	Transformation (SD Digital & Business Operations)	2,5	7	High	Review of the management and security of the ICT network

Audit	Audit Sponsor HUB (Service Director)	Strategic / Directorate Risk Registers	Corporate Priority	Audit Needs Assessment	Scope
Virtualisation	Transformation (SD Digital & Business Operations)	2,5	7	High	Significant level of change, review to cover security, access, visibility, content, data sensitivity.
Cyber Essentials Scheme	Transformation (SD Digital & Business Operations)	2,5	7	High	Gap analysis against the new HM Government assessment framework
Across Schools Thematic Review 1 - Budgetary Control 2 - TBC	Operations (SD Children & Families (DCS)) Strategic (SD Finance & Commercialisation)	3b,9	3,7	High	Budget preparation, management, transparency and governance.
General school reviews	Operations (SD Children & Families (DCS))	3b,9	3,7	High	Provision to respond to requests for individual school audits.
Schools admissions and attendance	Operations (SD Children & Families (DCS))	3b,9	3,7	High	Use of part-time timetables, exclusions and the legalities.
0-25 Special Educational Needs and Disability (SEND)	Operations (SD Children & Families (DCS))	3b,9	2,3,7	High	Completion and timeliness of Education Health care Plans (EHCPs) and Self Evaluation Forms (SEFs).
Respite schemes - children and adults	Operations (SD Children & Families (DCS) / SD Housing, Adults & Communities (DASS))	3a,3b,8,9	2,3,5	High	Effect and implementation of the changes to the service.
MARP - Multi Agency Resource Panel	Operations (SD Children & Families (DCS) / Strategic (Director Quality & Integration)	3b,9	2,3,5,7	High	Review the re-rollout of MARP in 2016/17 and the effectiveness of the arrangements.

Audit	Audit Sponsor HUB (Service Director)	Strategic / Directorate Risk Registers	Corporate Priority	Audit Needs Assessment	Scope
SFVS - School Financial Value Standard	Strategic (SD Finance & Commercialisation)	Mandatory	7	-	Facilitate submission and review the 2015/16 returns from schools. Administer the overall return to the DfE by the end of May 2016.
Safeguarding (Children) Assurance mapping	Operations (SD Children & Families (DCS))	3b	3	High	Assurance mapping to assess sources of assurance with regard children's safeguarding.
Care Leavers	Operations (SD Children & Families (DCS))	3b,9	2,3,5	High	Actions and control framework implemented to address the last Ofsted review.
Looked after children	Operations (SD Children & Families (DCS))	3b,9	2,3	High	High number of looked after children. Review of process (case plans outcomes etc.)
Better Care Fund	Strategic (Director Quality & Integration)	1,6,8	2,3,5,7	High	On-going review of the progress and implementation of the BCF. Achievement of outcomes / benefit realisation
Direct payments	Operations (SD Housing, Adults & Communities (DASS))	3a,8	2,3,5	High	Review of the systems in place for direct payments (offer, assessment, award, monitoring and review)
Families Matters grant claims	Operations (SD Children & Families (DCS))	Mandatory	2,3,5	-	Review in line with grant requirements.
ICU - Care Placement Service	Strategic (Director Quality & Integration)	7	2,3,5,7	Medium	Contractual arrangements for all placements, timely and operating efficiently
ICU - Quality Monitoring Team	Strategic (Director Quality & Integration)	7	2,3,5	Medium	Systems and processes in place for the 'quality monitoring' of providers
Rehabilitation, Reablement and Integration Programme	Strategic (Director Quality & Integration)	3a,8	2,3,5	Medium	Implementation and rollout of the new programme during the year

Audit	Audit Sponsor HUB (Service Director)	Strategic / Directorate Risk Registers	Corporate Priority	Audit Needs Assessment	Scope
Capital Programme Management	Operations (SD Growth)	1	4,5,7	High	Review of newly established Capital Assets Division
Planning applications	Operations (SD Growth)		4	High	Planning applications, fees and decisions are consistently managed
Community Infrastructure Levy	Operations (SD Growth)			High	Review of charging, exceptions, collection, recovery and legitimate use of funds
Port Health Services	Operations (SD Transactions & Universal Services)		7	High	Post implementation review of the new IT system introduced to support the efficient delivery of the Port Health Service.
Housing Depot Reviews	Chief Operations Officer (Customer Experience)	1,7	3,4,6	High	Review of the key risks and control framework in place following the relocation of the depot and the new stock supplier.
Procurement	Transformation (SD Digital & Business Operations)	7	7	High	General review to assess controls and compliance with procurement framework
Contract Management	Transformation (SD Digital & Business Operations)	7	7	High	<ul style="list-style-type: none"> Corporate guidance and contract management arrangements for a selection of contracts not forming part of the cyclical process. Specific cyclical review of major contract to include Highways, Guildhall, Golf Course
Integrated Commissioning Unit - procurement	Strategic (Director Quality & Integration)	7	7	High	Review of the procurement and awarding of new contracts led by SCC via the ICU.
Integrated Commissioning Unit - contract management	Strategic (Director Quality & Integration)	7	7	High	To review contract management arrangements for contracts within SCC responsibility.
Joint Venture - PSP	Chief Executive	1, 7	4,7	Medium	Governance, project management,

Audit	Audit Sponsor HUB (Service Director)	Strategic / Directorate Risk Registers	Corporate Priority	Audit Needs Assessment	Scope
					benefits realisation.
Bitterne Park Sixth Form (Phase 2)	Strategic (SD Legal & Governance)	-	-	High	To review pre contract / tender award process and post build negotiation settlement
Grant Contingency	Strategic (SD Finance & Commercialisation)	-	-	-	Provision for non assurance grant certification work as required.
PUSH	Strategic (SD Finance & Commercialisation)	-	-	-	Accountable body assurance work
Local Transport Capital Block Funding	Strategic (SD Finance & Commercialisation)	-	-	-	Grant certification
Disabled Facilities Grant	Strategic (SD Finance & Commercialisation)	-	-	-	Grant certification
Local Sustainable Transport Fund	Strategic (SD Finance & Commercialisation)	-	-	-	Grant certification
Annual Audit Report	-	-	-	-	
Audit charter	-	-	-	-	
Planning & reporting	-	-	-	-	
Monitoring & liaising	-	-	-	-	
Audit Committee	-	-	-	-	
Follow Up	-	-	-	-	
Advice	-	-	-	-	

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 significant and ongoing 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
03a	Failure to safeguard vulnerable adults
03b	Failure to safeguard children
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	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
08	Failure to ensure a financially sustainable adult social care system
09	Failure to ensure a financially sustainable children's social care system

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DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	INTERNAL AUDIT CHARTER 2016-17		
DATE OF DECISION:	25 APRIL 2016		
REPORT OF:	CHIEF INTERNAL AUDITOR		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Neil Pitman	Tel: 01962 845139
	E-mail:	neil.pitman@hants.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80834897
	E-mail:	Mel.creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
N/A	
BRIEF SUMMARY	
<p>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</p> <p>The internal audit charter is a formal document that defines internal audits purpose, authority and responsibility.</p> <p>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.</p> <p>In respect of public sector organisations the internal audit charter must also:</p> <ul style="list-style-type: none"> • 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. <p>The Internal Audit Charter 2016-17 is attached at Appendix 1</p>	
RECOMMENDATIONS:	
	(i) That the Governance Committee approves the Internal Audit Charter 2016-17 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	
	None
DETAIL (Including consultation carried out)	
	The internal audit charter 2016-17 has been approved by the Council's Management Team and is attached for consideration in the appendix
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
	None
<u>Property/Other</u>	
	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
	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.
<u>Other Legal Implications:</u>	
	None
POLICY FRAMEWORK IMPLICATIONS	
	None

KEY DECISION?	No	
WARDS/COMMUNITIES AFFECTED:	None	
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Internal Audit Charter 2016-17	
Documents In Members' Rooms		
1.	None	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.		No
Privacy Impact Assessment		
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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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Internal Audit Charter

Introduction

The Public Sector Internal Audit Standards, which took effect from the 1 April 2013, provide a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance and transparency.

The 'Standards' form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes the mission; core principles; definition of internal audit; and Code of Ethics.

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.

Mission and Core Principles

The IPPF 'Mission' aims *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'*

The 'Core Principles' underpin delivery of the IPPF mission:

- Demonstrates integrity;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement

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.'

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

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'.

Responsibility

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 *'Mission'*, *'Core Principles'*, *'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 disclosure 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 *'Mission'*, *'Core Principles'*, *'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 affect 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 is 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 Hampshire Fire & Rescue Authority Office of the Police & Crime Commissioner Hampshire Constabulary
External clients:	Hampshire Pension Fund
	Higher Education Institutions University of Winchester
	Further Education Institutions Brockenhurst; Fareham; Highbury; Itchen; Portsmouth; QMC; St Vincent's; Isle of Wight; and Taunton's;
	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.

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	EXTERNAL AUDIT PLAN YEAR ENDING 31 MARCH 2016		
DATE OF DECISION:	25 APRIL 2016		
REPORT OF:	CHIEF INTERNAL AUDITOR		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Neil Pitman	Tel: 01962 845139
	E-mail:	neil.pitman@hants.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80834897
	E-mail:	Mel.creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
N/A	
BRIEF SUMMARY	
<p>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 2015/16.</p> <p>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.</p>	
RECOMMENDATIONS:	
	(i) The Governance Committee is invited to comment on and note the External Audit Plan Year Ending 31 March 2016 as attached.
REASONS FOR REPORT RECOMMENDATIONS	
1.	In accordance with the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	None
DETAIL (Including consultation carried out)	
3.	The External Audit Plan Year Ending 31 March 2016 has been discussed with relevant senior managers
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
4.	None

<u>Property/Other</u>	
5.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
6.	Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements
<u>Other Legal Implications:</u>	
7.	None
POLICY FRAMEWORK IMPLICATIONS	
8.	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	The External Audit Plan Year Ending 31 March 2016
Documents In Members' Rooms	
1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.	No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) 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)
2.	None

Southampton City Council

Year ending 31 March 2016

Audit Plan

25 April 2016

Ernst & Young LLP



Building a better
working world

Governance Committee Members
Southampton City Council
Civic Centre
Southampton
Hampshire
SO14 7LY

23 March 2016

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 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, 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 Audit Plan with you on 25 April 2016 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 April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the [PSAA website \(www.psa.co.uk\)](http://www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Governance 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

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 2016 and of the income and expenditure for the year then ended; and
- ▶ our 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.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

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. 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 July 2016.

2. Financial statement risks

We outline below our current 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
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, ▶ evaluating the business rationale for significant unusual transactions; and ▶ evaluating the appropriateness of accounting policies against Code guidance and for changes from the prior period.

Non-significant financial statement risks

Minimum Revenue Provision (MRP)	
<p>Local authorities are normally required each year to set aside some of their revenues as provision for capital expenditure financed by borrowing or credit arrangements. This provision is known as MRP. MRP is a real charge that impacts on the general fund and therefore the council tax financing requirement.</p> <p>The Authority proposes to make changes to the basis on which it has charged MRP and its future approach to calculating the provision.</p>	<p>We have commissioned an EY expert to review the changes proposed by the Authority in this area.</p>

Better Care Fund	
<p>The Better Care Fund (BCF) is a major policy initiative between local authorities, clinical commissioning groups and NHS providers with the primary aim of driving closer integration and improving outcomes for patients, service users and carers.</p> <p>From 1 April 2015, local BCFs have been set up pooling funds between local government and NHS partners using powers available under pre-existing legislation. The partners use the pooled funds to jointly commission or deliver health and social care services.</p> <p>BCF arrangements can be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise the risk of inconsistencies in treatment between the partners.</p> <p>Proper disclosure and accounting for this arrangement in the Council's accounts will require careful consideration.</p>	<p>We will engage with management to ensure that their plans for financial statements production are clear.</p> <p>We will look specifically at proposed accounting treatments for the Better Care Fund, reviewing planned accounting arrangements against the requirements of the underlying accounting standards.</p>

2.1 Responsibilities in respect of 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 risks.

3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. For 2015/16 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant risk which we view as relevant to our value for money conclusion.

Significant value for money risks

Our audit approach

Financial Resilience - The Council will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Reductions in central government funding, coupled with demand lead pressures on its services, mean the Council is continuing to experience financial pressures.

The Council continues to face very significant and increasing financial challenges. In total it predicts that it will need to save some £42.3 million from its budget over the next four years.

Continued reductions in government grants, and increasing demand and cost around key services such as adult social care and children's services are the key drivers of the need for significant savings. The Council continues to seek alternative solutions to ensure that local services can be maintained and supported in the future, in line with local need.

Our approach will focus on:

- ▶ reviewing achievement against the 2015/16 budget; and
- ▶ reviewing the reasonableness of the 2016/17 budget and five year finance strategy.

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

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice 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 an audit report that covers:

1. Financial statement audit

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

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

Processes

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

- ▶ accounts receivable;
- ▶ accounts payable;
- ▶ council tax income;
- ▶ housing benefit and council tax support;
- ▶ Income collection and banking;
- ▶ national-non domestic rates; and
- ▶ payroll.

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 the 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 reporting where we raise issues that could have an impact on the year-end financial statements. Where relevant, we will seek to use the work of internal audit if they have covered the key controls we wish to test in the Council's key processes outlined above.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions	Council actuary, EY pensions team
Property, plant and equipment	Council valuers, EY valuations team
Minimum Revenue Provision	EY financial accounting and advisory services team

In accordance with auditing standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ assess the reasonableness of the assumptions and methods used;
- ▶ consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (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 Annual Governance Statement; and
- ▶ reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 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 approximately £7.062 million based on 1% of gross revenue expenditure on services. We will communicate uncorrected audit misstatements greater than £353,000 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.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative scale fee for the audit of Southampton City Council is £142,715.

4.6 Your audit team

The engagement team is led by Helen Thompson. Helen is supported by Ian Young who is responsible for the day-to-day direction of audit work and is the key point of contact.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money 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 2016. These dates are determined to ensure our alignment with PSAA'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 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.

Audit phase	Timetable	Governance Committee timetable	Deliverables
High level planning	April 2015 - December 2015	24 April 2015	Audit Fee Letter
Risk assessment and setting of scopes	December 2015 –January 2016	25 April 2016	Audit Plan
Testing routine processes and controls	February 2016 – March 2016	25 April 2016	Audit Plan
Year-end audit	June 2016 - July 2016	25 July 2016	Audit Results Report
Completion of audit	September 2016	25 July 2016	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 (dependent on the timing of completion of the Whole of Government Accounts return). Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2016	14 November 2016	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.

5. Independence

5.1 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; and ▶ 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 PSAA Terms of Appointment 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.

5.2 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 PSAA Terms of Appointment.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0.15:1. This amount is within both the limits set by EY and the Council. The non-audit fees work relates to a forensic audit undertaken by EY on the costs included within the Authority's contract with Capita Business Services Limited. This work was led and delivered by a separate EY team. No members of the advisory team work on the audit, and no audit team members worked on the project. The remuneration of the Engagement Lead, Helen Thompson, and the audit team are not impacted by this project. Decisions regarding which options to pursue and how to implement them were the responsibility of the Council

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 and the audit engagement team have not been compromised.

5.3 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 June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 £	Outturn fee 2014/15 £
Opinion Audit and VFM Conclusion	142,715	142,715	190,286
Total Audit Fee – Code work	142,715	142,715	190,286
Certification of claims and returns	19,524	19,524	25,340

All fees exclude VAT.

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

- ▶ officers meet the agreed timetable of deliverables;
- ▶ internal controls continue to operate effectively for the key processes outlined in section 4.2 above;
- ▶ we can rely on the work of internal audit as planned;
- ▶ our accounts opinion and value for money conclusion are unqualified;
- ▶ appropriate quality of documentation is provided by the Council; and
- ▶ the Council maintains 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
<p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p>Significant findings from the audit</p> <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
<p>Misstatements</p> <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
<p>Fraud</p> <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
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <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
<p>External confirmations</p> <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
<p>Consideration of laws and regulations</p> <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 	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>

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