

Governance Committee

Monday, 24th April, 2017
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Conference Room 3 - Civic Centre

This meeting is open to the public

Members of the Committee

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

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 2016/17

2016	2017
6 June	13 February
25 July	24 April
14 November	
12 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

1 **APOLOGIES**

To receive any apologies.

2 **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

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

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

3 **STATEMENT FROM THE CHAIR**

4 **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)** (Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 13th February 2017 and to deal with any matters arising, attached.

5 **ANNUAL REVIEW OF THE CONSTITUTION** (Pages 3 - 10)

Report of the Service Director: Legal & Governance detailing changes to the Constitution, attached.

6 **CODE OF CORPORATE GOVERNANCE - ANNUAL REVIEW** (Pages 11 - 20)

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

7 **EXTERNAL AUDIT PROGRESS REPORT** (Pages 21 - 32)

Report of the External Auditor providing a progress report against the external auditor's 2016/17 audit plan, attached.

8 **2016-17 INTERNAL AUDIT PLAN - PROGRESS REPORT** (Pages 33 - 56)

Report of Chief Internal Auditor (Southern Internal Audit Partnership) providing an update on progress against the 2016/17 internal audit plan and the status of 'live' reports.

9 **AUDIT CHARTER 2017** (Pages 57 - 76)

Report of the Chief Internal Auditor detailing the Internal Audit and Counter Fraud Charter and Code of Ethics 2017/2018, attached.

10 INTERNAL AUDIT PLAN 2017/18 (Pages 77 - 84)

Report of Chief Internal Auditor detailing the Internal Audit Plan 2017/18, attached.

Wednesday, 12 April 2017

Service Director, Legal and Governance

GOVERNANCE COMMITTEE

MINUTES OF THE MEETING HELD ON 13 FEBRUARY 2017

Present: Councillors Barnes-Andrews (Chair), Inglis, Jordan, Noon, O'Neill, Parnell and Keogh (Vice-Chair)

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

RESOLVED: that the minutes for the Committee meeting on 12th December 2016 be approved and signed as a correct record.

29. **ANNUAL GOVERNANCE STATEMENT**

The Committee considered the Annual Governance Statement which in accordance with the Accounts and Audit Regulations the Council was required to develop and publish. The Committee noted that the overall process remained unchanged, however there was revised CIPFA/Solace guidance which confirmed that authorities should nominate an individual or group of individuals within the authority who had appropriate knowledge and expertise and levels of seniority to identify a number of points as detailed in paragraph 10 of the report. The Committee noted that the Council had in place a "Controls Assurance Management Group" comprising of the Section 151 Officer, Chair, Governance Committee, Monitoring Officer, Chief Strategy Officer and Chief Internal Auditor which were responsible for evaluating the assurances and supporting evidence provided and drafting the Annual Governance Statement.

RESOLVED: that the assurance gathering process to support the development of the 2016-17 Annual Governance Statement as detailed in appendix 1 of the report be approved.

30. **PRUDENTIAL LIMITS AND TREASURY MANAGEMENT STRATEGY 2017/18 TO 2020/21**

The Committee considered the report of the Service Director Finance and Commercialisation detailing the Treasury Management Strategy and Prudential Limits 2017/18 to 2020/21. The Committee noted the context within which the Council's treasury management activity operated and the proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing and the management of the numerous risks related to the activity.

The Committee noted that the Treasury Management Strategy and Prudential Limits 2017/18 to 2020/21 was subject to the Local Government Settlement which was delayed this year and would be after Cabinet and Council Budget setting meetings.

RESOLVED:

- (i) That the Treasury Management Strategy for 2017/18 as outlined in the report be endorsed;

- (ii) That the 2017 Minimum Revenue Provision Statement as detailed in paragraphs 76 to 84 of the report be endorsed;
- (iii) That it be noted that the indicators as reported had been set on the assumption that the recommendations in the Capital update report would be approved by Council on 15th February 2017; should the recommendations change the Prudential Indicators may have to be recalculated; and
- (iv) That it be noted that due to 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 would be highlighted in the final version that was presented to Full Council.

31. **RISK MANAGEMENT DEVELOPMENT PLAN**

The Committee received and noted the report of the Service Director Finance and Commercialisation detailing the Risk Management Policy 2017/18 – 2020/21 and Development Plan. The Committee noted that the Council’s Risk Management Policy had been reviewed and updated to ensure that it remained aligned with good practice and reflected the “business need” and provided an overview of the operating framework, arrangements and responsibilities for managing risk within the Council.

32. **EXTERNAL AUDIT - AUDIT PLAN**

The Committee received and noted the report of the External Auditor detailing the External Audit Plan Year Ending 31st March 2017. The Committee noted that the External Auditor’s Plan set out how they would carry out their responsibilities and provide the Governance Committee with a basis to review the external auditors proposed scope and audit approach for 2016/17. The Committee also noted that the plan summarised the external auditor’s initial assessment of the key risks driving the development of an effective audit for the Council and outlined their planned audit strategy in response to those risks.

Agenda Item 5

DECISION-MAKER:		GOVERNANCE COMMITTEE COUNCIL	
SUBJECT:		ANNUAL REVIEW OF THE CONSTITUTION	
DATE OF DECISION:		24TH APRIL 2017 (GOVERNANCE COMMITTEE) 17TH MAY 2017 (COUNCIL)	
REPORT OF:		SERVICE DIRECTOR: LEGAL & GOVERNANCE	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail:	Richard.vory@southampton.gov.uk	
Director	Name:	Richard Ivory	Tel: 023 8083 2794
	E-mail:	Richard.vory@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
None.			
BRIEF SUMMARY			
This report sets out the annual review of the Constitution. This will be considered and initially discussed by Governance Committee on 24 th April 2017. 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.			
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 2017/18	
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 save for the recommendations in respect of the Employment Appeals Panel. 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>Contract Procedure Rules (Part 4)</u>	
3.	The amendments proposed to the current Contract Procedure Rules (CPRs) can be divided into three broad categories:
a.	Those arising from the introduction of the Public Contract Regulations 2015 (PCR 2015), Concession Contract Regulations 2016 and Transparency Code.
b.	Those arising from general updates to roles and delegations under the constitution.
c.	Those arising from the Council's evolving strategic and operational approach to procurement.
4.	The overarching objectives of these amendments are to:-
	<ul style="list-style-type: none"> • Ensure that the Council fully complies with the legislation to mitigate the risk of legal challenge and • Ensure that good practices are embedded within the rules to achieve value for money and the supply of works, goods and services to effectively and efficiently contribute to the Council's objectives and priority outcomes.
5.	The amendments do not include expansion of the scope of the CPRs to include details of business processes and governance arrangements which will be updated separately.
6.	Summarised below are the key changes proposed:-
<u>Amendments arising from the introduction of the Public Contract Regulations 2015 and Concession Contracts Regulations 2016 and Transparency Code</u>	
7.	Insertion of a paragraph which clarifies that concession agreements are governed by the Concession Contracts Regulations 2016. The current version of the CPRs do not make reference to concession agreements.
8.	Replacement of the UK (pounds) OJEU threshold values applicable between January 2016 and January 2018.
9.	Introduction of a reference to the "light touch regime" which applies to certain health, social and other services if the value of the contract being procured meets the OJEU threshold of £589,148. This permits certain deviations from the standard OJEU procurement procedures.
10.	Removal of the reference to paper based tender process as PCR 2015 requires that tender processes are run on a fully electronic basis from 18

	October 2018. The Council has already adopted this approach.
11.	Clarification that the CPRs do not apply to internal service provision (including where the contracting authority awards a contract to an entity which it controls) or contracts which establish or implement co-operation between contracting authorities.
12.	Instruction that all tender documents must refer to (and any contract award must be made) on the basis of the “most economically advantageous tender” rather than the lowest tender.
13.	Clarification that contracts which are subject to the PCR 2015 must not be varied other than in accordance with the provisions of the PCR 2015 and that Officers must always seek advice from the Procurement Services Team before any variations or extensions to a contract are agreed with a supplier.
14.	Introduction of the revised reporting and notification requirements set out by the PCR 2015 including requirements to publish certain opportunities and award notices on Contracts Finder.
15.	Introduction of the requirement for the Council to obtain clarification or explanation from suppliers who submit tenders which appear abnormally low and the ability for the Council to reject a tender if the evidence supplied is not satisfactory to justify the low tender.
16.	Introduction of the requirement for the Procurement Services Team to manage and maintain a Contract Register containing data to assist the Council to meet its obligations in respect of the Department for Communities and Local Government Transparency Code. Currently the CPRs place an obligation on Service Leads to maintain a register of all current contracts and framework agreements where the contract value is less than £100,000.
17.	The proposed version of the CPRs do not anticipate the UK’s position post leaving the EU. Whilst it is not anticipated that there will be any key changes to the UK’s procurement approach in the short term, the CPRs will be revisited if and when any changes occur.
<u>Amendment arising from general update to roles and delegations under the Constitution</u>	
18.	Replacement of job titles to reflect current Council management structures and delegation of responsibilities as set out in the Officer Scheme of Delegation (i.e. a number of procurement related responsibilities of the CFO have moved to the Service Director; Digital and Business Operations).
19.	Amendment of terminology to reflect the move from Senior Manager to Service Director.
<u>Amendments arising from the Council’s evolving approach to procurement</u>	
20.	Emphasis of the requirement for all public sector procurements (regardless of value) to adhere to public procurement requirements of equality of treatment, non-discrimination, transparency, mutual recognition and proportionality and that such adherence must be demonstrable if challenged. This is underpinned by the Social Value Act 2012 and the Council’s Ethical Procurement Policy.

21.	Clarification that framework agreements will only be used when they demonstrate Best Value for a specific requirement.
22.	Instruction that the Procurement Services Team shall manage all procurement activity with the exception of requirement of less than £1,000 in value (“Low Value Transactions”).
23.	Instruction that in respect of Low Value Transactions, officers must make the Procurement Services Team aware of their intention to procure prior to requesting the quote(s) to ensure that any existing contractual arrangements which may be appropriate and/or suppliers who have previously expressed an interest in the requirement being procured are identified and involved as appropriate.
24.	Instruction that the Procurement Services Team must be involved at the “defining the need” stage of the procurement process.
25.	Amendment of the Council’s thresholds which govern which procurement procedures must be used.
	<ul style="list-style-type: none"> • £1,000 – £999,000 - The Procedure for Intermediate Value Transactions. The current CPRs classified £10,000 – £99,000 as Intermediate Value Transactions requiring at least three quotes. • Up to £999 - The Procedure for Low-value Transactions. The current CPRs classified all spend up to £10k as Low-value Transactions requiring at least one quote. • In accordance with good practice, three quotes must now be sought in respect of any procurement above £1,000 and the procedure will be managed by the Procurement Services Team. This is consistent with the current practice.
26.	Confirmation that it is now possible to appoint a supplier if only one quote received. The current CPRs require the Council to seek additional quotes.
27.	Confirmation that approval of exemptions will be conditional to the relevant Service Director providing and agreeing a plan with the Service Director; Digital and Business Operations to mitigate the need for further exemptions relating to the contract.
<u>Employment Appeals Panel – Amalgamation with Governance Committee, Terms of Reference and delegations (Part 3)</u>	
28.	After consultation with the recognised trade unions the proposal is that all matters relating to hearings and determination of any employee grievance or appeal under the Council’s disciplinary, grievance, dismissal and other employee relations procedure are delegated to Directors to determine. This accords with national HR good practice and will reduce timelines.
29.	Authority to dismiss is currently set out in the Scheme of Delegation and there is no proposal to amend that. However, it is proposed that all appeals against dismissal will be heard by a member of Senior Leadership Team with appropriate advice and support from Human Resources and Legal Services. This will include appeals against the following dismissals:

	<ul style="list-style-type: none"> • disciplinary
	<ul style="list-style-type: none"> • ill-health
	<ul style="list-style-type: none"> • redundancy
	<ul style="list-style-type: none"> • capability
	<ul style="list-style-type: none"> • probationary
	<ul style="list-style-type: none"> • SOSR
30.	School Transport and associated appeals will be heard by a three-person panel, comprising senior officers, chaired by the Service Director: Children's and Families. Grievances will be heard in accordance with the current procedure and the final step will be heard by Service Lead, Service Director or SLT member as appropriate.
31.	In addition, revisions to the EAP's terms of reference are recommended as below:
<u>Functions under the Fireman's Pension Scheme</u>	
32.	Proposed that this is deleted – it relates to the obligation of “every county and county borough shall, subject to the provisions of this Act, be the fire authority for the area of the Council”. This has been superseded by the creation of Hampshire Fire and Rescue Authority and is therefore obsolete.
<u>Redundancy and severance payments and early release of pension benefits,</u>	
33.	Proposed this is delegated to the Chief Strategy Officer after consultation with Service Director; HR and Organisational Development, Service Director; Finance and Commercialisation and Service Director; Legal and Governance. This will include requests from schools who will be required to submit a business case to the CSO.
<u>Residual Appeals, etc</u>	
34.	Within the terms of reference an appeal provision will remain to cover any other residual appeals not specifically detailed in any other policies.
35.	A committee will still be needed to review HR policy and deal with residual appeals. In light of the reduction of business that will be considered by EAP, it is considered that it should form part of Governance Committee's terms of reference.
36.	Chief Officer Employment Panel will still remain in situ, but revision to the current terms of reference is sought so COEP will be responsible for the appointment and dismissal (where permissible) of all Chief Officers. The Chief Executive, as Head of Paid Service, will assume responsibility for all employees up to and including Deputy Chief Officers in accordance with national best practice.
<u>Financial Procedure Rules</u>	
37.	The Financial Procedure Rules have been reviewed in light of the changing Chief Officer structure and also with the strengthening of financial management in mind.

38.	As a consequence there are a number of major changes that are aimed at strengthening the financial management within the authority, these are detailed below:	
39.	a.	The ability for Service Directors to balance their financial position within their overall resources has been made more explicit (Financial Management - What is a virement?)
	b.	To make clear that no one has the authority to overspend (A.17), and where this is a possible sets out the procedure that must be followed;
	c.	The schools elements have also been updated to reflect the changing funding and the new deficit policy agreed with the Schools Forum;
	d.	In the financial planning section the emphasis has been placed on the 5 year Medium Term Financial Plan and as a result we have been able to remove the budget section and amalgamate it with the financial planning section;
	e.	Where possible the HRA has been aligned within the standard Financial Procedure Rules
40.	The other changes are not significant and relate mainly to bringing these rules in line with the current management structure, ensuing clarity and realigning under the various headings.	
<u>Officer Scheme of Delegation Revisions</u>		
<u>Capital Assets</u>		
41.	It is proposed to increase the limit for delegated authority in current paragraph 19.9 f. for the restructuring of ground leases involving an increase in rent where a premium is paid from £150,000 to £500,000 to make the limit consistent with the limit for delegated authority to sell land up to a value of £500,000 in current paragraph 19.2 b. and to exchange land up to a value of £500,000 in current paragraph 19.11. This will make the limits the same whether land is leased, sold or exchanged.	
<u>Strategy & Policy</u>		
42.	Delegation is sought to approve minor changes to Level 1 and Level 2 strategies and plans following consultation with the Leader and relevant Cabinet Member(s).	
43.	Additionally, in relation to external financial bids to the Government, EU etc currently, after an external offer is received, officers have to report to Cabinet to formally approve receipt. This is seen as unnecessary and delegated authority is sought to approve bids for external funding following consultation with the relevant Cabinet Member as it is really a procedural matter.	
44.	Authority is also sought to delegate minor amendments, ie those within policy and budget, to the Partnership Terms of Reference for Southampton Connect, the Safe City Partnership and the Employment, Skills and Learning Partnership, after consultation with the relevant Partnership Chair and lead Cabinet Member.	

45.	A track-changed version of the complete Constitution proposed revisions can be found at [...]. Many delegations have been reallocated in accordance with operational requirements and numbering will be changed accordingly after the Council resolves, but the new and substantive changes are referred to above.
<u>Other minor amendments</u>	
<u>Joint Working with CCG</u>	
46.	It is proposed to bring forward additional proposals for joint working with the CCG which will require additional changes to both the Council and CCG governance arrangements in due course. A report will be brought to Cabinet and the Council in the summer setting out any proposals and further changes to the Constitution.
<u>Clean Air Zone</u>	
47.	Work is progressing to determine a Clean Air Zone (CAZ) for Southampton to combat air quality issues. As the CAZ is a new type of statutory charging scheme it is necessary to reflect the adoption of such a zone in due course as a matter for the Executive to determine under the Local Choice functions of the Constitution.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
48.	None.
<u>Property/Other</u>	
49.	None.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
50.	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>	
51.	None.
POLICY FRAMEWORK IMPLICATIONS	
52.	None.
KEY DECISION?	n/a
WARDS/COMMUNITIES AFFECTED:	None

SUPPORTING DOCUMENTATION

Appendices

1.	Revised Constitution (with track changes) – online only
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Documents In Members' Rooms

1.	None
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Equality Impact Assessment

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

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
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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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1.	None
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Agenda Item 6

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	CODE OF CORPORATE GOVERNANCE – ANNUAL REVIEW		
DATE OF DECISION:	24 TH APRIL 2017		
REPORT OF:	SERVICE DIRECTOR: LEGAL & GOVERNANCE		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Richard Ivory	Tel: 023 8083 2794
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Director	Name:	Suki Sitaram	Tel: 023 8083 2060
	E-mail:	Suki.sitaram@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
None			
BRIEF SUMMARY			
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 required.			
RECOMMENDATIONS:			
	(i)	To note and approve the updated draft 2017 Code of Corporate Governance (“CCG”) attached at Appendix 1.	
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. A core document supporting this is the annual CCG		
2.	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".		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
3.	No alternative options have been considered as this is a core governance requirement.		
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' *Source: Delivering Good Governance in Local Government - Framework (CIPFA, 2007)
5.	The CCG is based around core principles contained in recently updated 'Delivering Good Governance in Local Government (2016)' guidance. This document provides guidance on producing the local code of corporate governance, the Annual Governance Statement, as well as the process of undertaking the review of governance. The CCG has been updated to reflect current arrangements.
6.	The minimally revised CCG reflects the current best practice guidance.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
7.	None.
<u>Property/Other</u>	
8.	None.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
9.	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>	
10.	None.
POLICY FRAMEWORK IMPLICATIONS	
11.	None.
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	none
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	2017 draft Code of Corporate Governance (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

INTRODUCTION

Corporate governance comprises the systems, processes, values and cultures by which councils are directed and controlled and through which they are accountable to and engage with and, where appropriate, lead 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.

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.

GOOD CORPORATE GOVERNANCE

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 good corporate governance identified in the CIPFA / SOLACE framework '*Delivering Good Governance in Local Government*'. This Code of Corporate Governance is based on this framework and reflects 7 core principles:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The purpose of this Code of Corporate Governance is to provide a simple document with, where appropriate, hyperlinks (where the text is underlined) to key documents relating to governance which are available free of charge on the Council's website.

Core Principle A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

Sub Principles	Evidenced by
<ul style="list-style-type: none"> • Behaving with integrity • Demonstrating strong commitment to ethical values • Respecting the rule of law 	<ul style="list-style-type: none"> • <u>Council Constitution</u> - (Part 3) Governance Committee Terms of Reference • <u>Council Constitution</u> (Part 4) – Financial Procedure Rules • <u>Council Constitution</u> (Part 4) – Contract Procedure Rules • <u>Council Constitution</u> (Part 4) – Overview and Scrutiny Procedure Rules • <u>Council Constitution</u> (Part 4) – Executive Procedure Rules • <u>Council Constitution</u> - (Part 5) – Monitoring Officer Protocol • <u>Council Constitution</u> (Part 5) - Members' Code of Conduct including Register of Interests • <u>Council Constitution</u> (Part 5) Officers Code of Conduct • <u>Council Constitution</u> (Part 5) – Officer Member Protocol • <u>Council Constitution</u> (Part 10) – Officer Scheme of Delegation • <u>Whistleblowing - Duty to Act Policy</u> • <u>Comments, complaints and compliments process</u> • Officer Code of Conduct including register of Gifts and Hospitality • Regulation of Investigatory Powers Act 2000 Corporate Surveillance Guidance • Anti-Fraud & Anti-Corruption Policy

Core Principle B. Ensuring openness and comprehensive stakeholder engagement

Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

Sub Principles	Evidenced by
<ul style="list-style-type: none"> • Openness • Engaging comprehensively with institutional stakeholders 	<ul style="list-style-type: none"> • <u>Transparency and Publication of Data</u> • Decision Making Guidance and Information • <u>Council Performance data</u> • Budget Consultation Process • 'Have your say' - webpage (e-petitions, consultations and People's Panel)

<ul style="list-style-type: none"> Engaging stakeholders effectively, including individual citizens and service users 	<ul style="list-style-type: none"> Comments, complaints and compliments process Freedom of Information and Publication Scheme Council Constitution (Part 4) – Overview and Scrutiny Procedure Rules Southampton Compact - Code of Good Practice between Statutory, Community and Voluntary organisations
<p>Core Principle C. Defining outcomes in terms of sustainable economic, social, and environmental benefits</p>	
<p>The long-term nature and impact of many of local government’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.</p>	
<p>Sub Principles</p>	<p>Evidenced by</p>
<ul style="list-style-type: none"> Defining outcomes Sustainable economic, social and environmental benefits 	<ul style="list-style-type: none"> Southampton City Strategy 2015-25 Southampton City Council Strategy 2016-20 Local Development Plan Customer Strategy 2015-18 Medium Term Financial Strategy Southampton City Council - Budget Book Statement of Accounts Clean Air Strategy 2016-2025
<p>Core Principle D. Determining the interventions necessary to optimise the achievement of the intended outcomes</p>	
<p>Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.</p>	
<p>Sub Principles</p>	<p>Evidenced by</p>
<ul style="list-style-type: none"> Determining interventions Planning interventions Optimising achievement of intended outcomes 	<ul style="list-style-type: none"> Council Constitution (Part 2) – Decision Making Council Constitution (Part 3) – Responsibility for Functions: Terms of Reference – Overview & Scrutiny Council Constitution (Part 4) – Overview Scrutiny Procedure Rules Council Performance data Customer Strategy 2015-18 Southampton City Strategy 2015-25 Southampton City Council Strategy 2016-20 Council Constitution (Part 5) Partnership Code Southampton Compact - Code of Good Practice between Statutory, Community and Voluntary organisations Joint Strategic Needs Assessment

	<ul style="list-style-type: none"> • <u>Community Safety Strategic Needs Assessment</u>
<p>Core Principle E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it</p>	
<p>Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.</p>	
Sub Principles	Evidenced by
<ul style="list-style-type: none"> • Developing the entity’s capacity • Developing the capability of the entity’s leadership and other individuals 	<ul style="list-style-type: none"> • Workforce Development Strategy • Equality Policy and Action Plan • Member User Group • Councillor Personal Development Plan • Manager Toolkit • Performance Contracts • Induction Checklist
<p>Core Principle F. Managing risks and performance through robust internal control and strong public financial management</p>	
<p>Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.</p> <p>A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.</p> <p>It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.</p>	
Sub Principles	Evidenced by
<ul style="list-style-type: none"> • Managing risk • Managing performance • Robust internal control • Managing data • Strong public financial 	<ul style="list-style-type: none"> • Risk Management Policy • Strategic Risk Register • <u>Council Constitution</u> - (Part 3) Governance Committee Terms of Reference • <u>Local Flood Risk Management Strategy</u> • Annual Audit Letter • Internal Audit Charter • Annual Internal Audit Plan

management	<ul style="list-style-type: none"> • Information Governance & Risk Policy • Data Protection Policy • Council Constitution (Part 4) – Financial Procedure Rules • Council Constitution (Part 4) – Budget Policy Framework Procedure Rules • Council Constitution (Part 4) – Contract Procedure Rules • Council Constitution (Part 4) – Overview and Scrutiny Procedure Rules • Medium Term Financial Strategy • Annual Governance Statement (Part of the Statement of Accounts)
<p>Core Principle G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability</p>	
<p>Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.</p>	
<p>Sub Principles</p>	<p>Evidenced by</p>
<ul style="list-style-type: none"> • Implementing good practice in transparency • Implementing good practices in reporting • Assurance and effective Accountability 	<ul style="list-style-type: none"> • Transparency and Publication of Data • 'Have your say' - webpage (e-petitions, consultations and People's Panel) • Budget Consultation Process • Council Performance data • Customer Strategy 2015-18 • Annual Audit Letter • Internal Audit Charter • Annual Internal Audit 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 2017

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DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	EXTERNAL AUDIT – PROGRESS REPORT		
DATE OF DECISION:	24 APRIL 2017		
REPORT OF:	HELEN THOMPSON FOR AND ON BEHALF OF EY LLP		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	MARTIN YOUNG	Tel: 023 80 382220
	E-mail:	myoung1@uk.ey.com	
Director	Name:	Mel Creighton	Tel: 023 80 834897
	E-mail:	Mel.creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
N/A	
BRIEF SUMMARY	
The purpose of this report is to provide the Governance Committee with an overview of progress against the external auditor's 2016/17 audit plan.	
RECOMMENDATIONS:	
	(i) The Governance Committee is invited to comment on and note the External Audit Progress Report as attached.
REASONS FOR REPORT RECOMMENDATIONS	
1.	The Progress Report is a key mechanism in ensuring that progress and outcomes of the external auditor's work are communicated to the Governance Committee's in a timely fashion.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	None.
DETAIL (Including consultation carried out)	
3.	The External Audit Progress Report for April 2017 has been provided to relevant senior managers for comment.
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.	External audit is undertaken 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

<u>Other Legal Implications:</u>	
7.	None
POLICY FRAMEWORK IMPLICATIONS	
8.	None.

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None

SUPPORTING DOCUMENTATION

Appendices

1.	Progress Report
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Documents In Members' Rooms

1.	None.
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Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.	No
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Privacy Impact Assessment

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
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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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2.	None.
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Southampton City Council

Governance Committee Progress Report

April 2017



Governance Committee
Southampton City Council
Civic Road
Southampton
SO14 7LY

28 March 2017

Dear Committee Member

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Committee with an overview of our progress against the Council's 2016/17 audit plan, reported to you in February 2017. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken 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.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson
Executive Director
For and behalf of Ernst & Young LLP

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2016/17 audit	2
2016/17 timetable	5

Public Sector Audit Appointments Ltd (PSAA) has issued the ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.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’ (updated September 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 progress update 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.

2016/17 audit

1.0 Financial Statements

High level planning, risk assessment and setting of scope of audit

We adopt a risk based approach to the audit and, as part of our continuous planning we have held a number of meetings with key officers and other stakeholders to ensure the 2016/17 audit runs as smoothly as possible and to identify any risks and technical accounting issues that require our early consideration. Recent meetings include:

- ▶ January 2017 – liaison meeting with the Chief Internal Auditor;
- ▶ January 2017 – our quarterly meeting with the Chief Executive, Chief Strategy Officer and Service Director Finance & Commercialisation to update our understanding of the challenges and risks the wider Council is facing;
- ▶ January 2017 & March 2017 – our monthly meeting with the Service Director Finance & Commercialisation (and her team) to update our understanding of the challenges and risks the finance team are facing; and
- ▶ January 2017, February 2017 & March 2017 – our Monthly Audit Operational Meeting with the finance team to track progress on individual audit queries and operational matters.

We reported our initial risk assessment and audit approach to you in February 2017 through our Audit Plan. Our continuous planning has identified no additional significant risks or other risks that we need to report to you.

Testing of routine processes and controls

We have completed our walkthroughs of the key financial systems. We have progressed our testing of key IT controls which is due to be completed in early April 2017.

We have progressed our testing of key systems controls:

- ▶ testing on accounts payable, housing benefit, income collection & banking and non-domestic rates are all substantially complete;
- ▶ we have deferred testing to accounts receivable until April 2017 when the results of internal audit's work, on which we plan to rely, will be available; and
- ▶ payroll testing is progressed and awaiting further information from the Council's payroll provider Capita. The detail of outstanding information has been communicated to the Council through the Monthly Audit Operational Meetings.

There are no significant matters arising that we need to bring to your attention at this stage. We will report the final output of our work to you in our Audit Results Report scheduled to be brought to the Committee in July 2017.

Year-end audit

Our year-end visit is planned for June and July 2017, we have agreed dates with the Council and agreed the working papers required in support of the audit. The key areas of focus will be those risks reported to you in our Audit Plan.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries. These tools facilitate our analysis of these data sets and allow us to focus our testing in areas of highest risk.

We will report the final output of our work to you in our Audit Results Report scheduled to be brought to the Governance Committee in July 2017.

2.0 Value for money conclusion

We have completed our initial risk assessment and identified one significant risk, namely 'Sustainable resource deployment - The Council's ability to deliver the savings required to support the sustainable delivery of services.' Our audit approach was communicated to you in February 2017 through our Audit Plan. We have agreed with officers to commence our work in this area in April 2017.

3.0 Other matters of interest

Highways Network Assets

In our progress report in December 2016, we reported that the CIPFA (Chartered Institute of Public Finance Accountants) / LASAAC (Local Authority (Scotland) Accounts Advisory Committee) Code Board had decided to postpone the full implementation of the move to measuring Highways Network Assets at Depreciated Replacement Cost in local authority financial statements with a view to implementation in 2017/18.

At its meeting on March 8th, the CIPFA / LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.

Housing Benefit Certification

We have agreed that the Council will perform some of the initial testing itself in 2016/17, in return for a 20% reduction in our fee. We will do sufficient checking to satisfy ourselves that this testing has been performed appropriately. This is an arrangement that has worked well at other clients.

Sector briefings

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings.

Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2016/17 Governance Committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	Ongoing	Audit Fee Letter	Issued 7 th April 2016 Reported July 2016	Completed
Risk assessment and setting of scope of audit	Dec 2016 - January 2017	Audit Plan	February 2017	Completed
Testing of routine processes and controls	February - April 2017	Progress Report	April 2017	In progress (see above)
Year-end audit	June – July 2017	Audit results report to those charged with governance. Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions. Audit Completion certificate	July 2017	Work is planned to start in June 2017.
Annual audit letter	July – August 2017	Annual audit letter to those charged with governance.	September 2017	

EY | Assurance | Tax | Transactions | Advisory

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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Agenda Item 8

DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		INTERNAL AUDIT PROGRESS REPORT (March 2017)	
DATE OF DECISION:		24 April 2017	
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			
None.			
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 2017</p>			
RECOMMENDATIONS:			
	(i)	That the Governance Committee notes the Internal Audit Progress report to the period March 2017 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.	None
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 2017
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) None	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 Progress Report

March 2017

Southampton City Council



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Southern Internal Audit Partnership

Assurance through excellence
and innovation

Agenda Item 8
Appendix 1

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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 [the Standards – updated 2016].

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

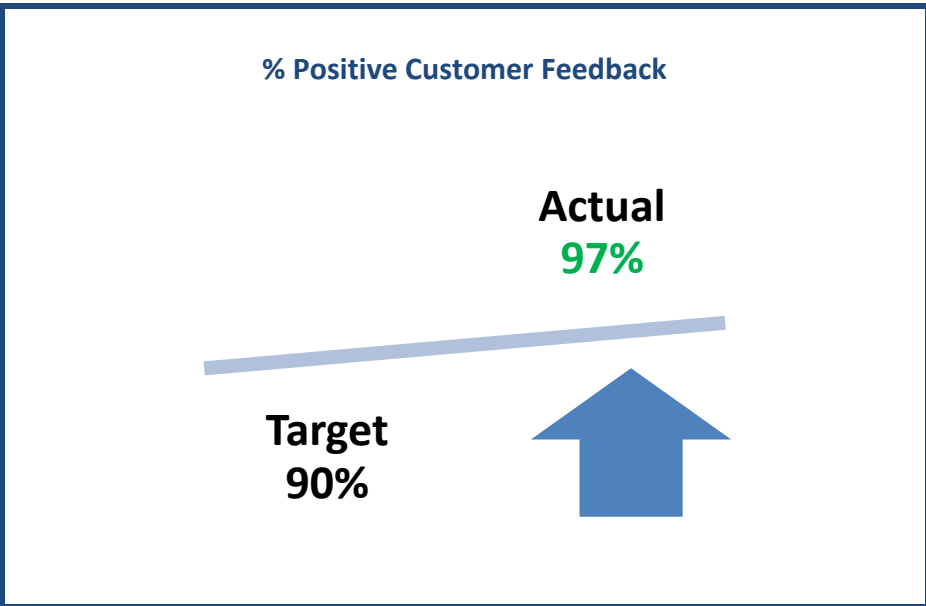
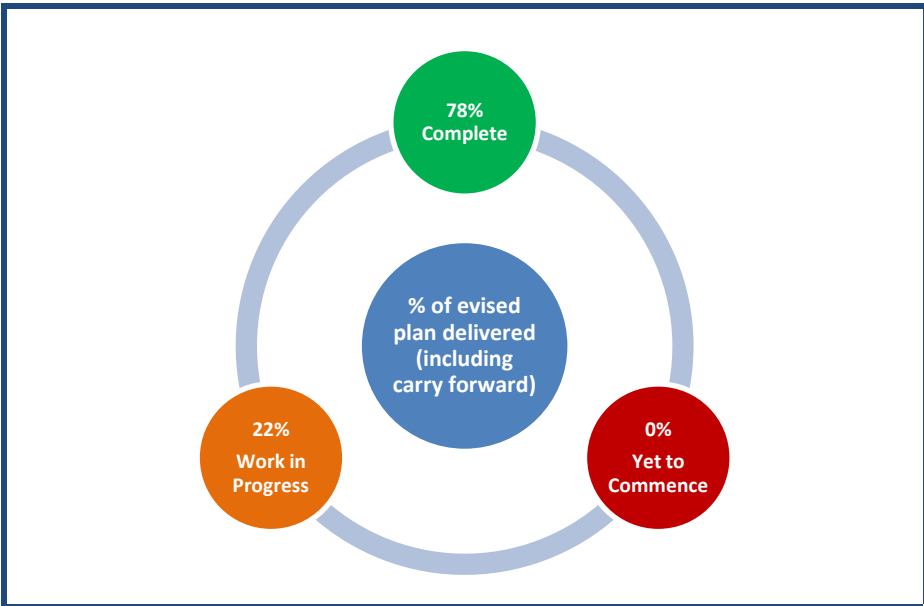
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to ‘Senior Management’ and ‘the Board’, summarising:

- 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>

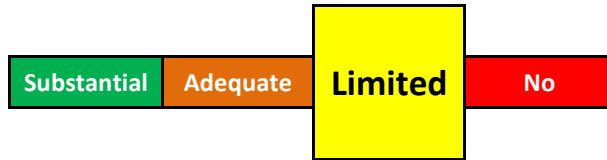
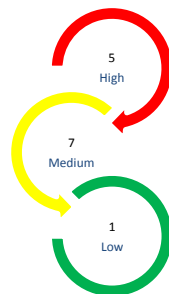
4. Status of 'Live' Reports

Audit Review	Report Date	Directorate Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Client Monies Service	09/03/15	People	Limited	30 (16)	0 (0)	0 (0)	29 (16)	1 (0)
Financial Assessment Process	13/07/15	People	Limited	32 (22)	0 (0)	0 (0)	31 (22)	1 (0)
Accounts Receivable/Debt Management	08/10/15	Corporate Services	Adequate	8 (1)	0 (0)	0 (0)	7 (1)	1 (0)
IT disaster recovery	22/02/2016	Corporate Services	Limited	10 (3)	0 (0)	0 (0)	6 (2)	4 (1)
Across Schools Thematic Review Payroll -	09/03/2016	Children & Families	Adequate	4 (1)	0 (0)	2 (0)	2 (1)	0 (0)
Human Resources – sickness monitoring	18/03/2016	Corporate Services	Adequate	15 (10)	0 (0)	0 (0)	12 (10)	3 (0)
HMO Licencing	22/03/2016	Transactions & Universal Services	Adequate	13 (7)	0 (0)	0 (0)	7 (3)	6 (4)
Continuing healthcare	06/04/16	DASS	Adequate	6 (3)	0 (0)	1 (1)	4 (2)	1 (0)
Telecommunications	12/04/16	SD D&BO	Limited	4 (0)	0 (0)	0 (0)	3 (0)	1 (0)
Integrated Commissioning Unit Governance -	21/04/16	SD Q&I	Adequate	6 (4)	0 (0)	0 (0)	5 (3)	1 (1)

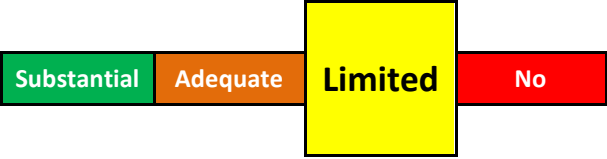
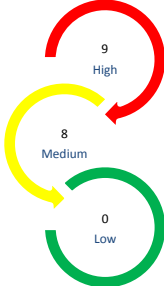
Audit Review	Report Date	Directorate Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Safeguarding Adults	05/05/16	DASS	Limited	27 (6)	0 (0)	0 (0)	26 (6)	1 (0)
Quality assurance	16/05/16	DASS	Limited	12 (8)	0 (0)	0 (0)	6 (5)	6 (3)
Fostering	25/05/16	DCS	Limited	20 (16)	0 (0)	0 (0)	19 (15)	1 (1)
Business Continuity and Emergency Planning (follow up)	26/05/16	SD D&BO	N/A	1 (0)	0 (0)	1 (0)	0 (0)	0 (0)
DOLS	16/06/16	DASS	Limited	12 (12)	0 (0)	0 (0)	10 (10)	2 (2)
Health & Safety (follow up)	12/07/16	SD D&BO	N/A	16 (11)	0 (0)	4 (3)	12 (8)	0 (0)
Direct Payments	02/08/16	DASS	Limited	41 (14)	0 (0)	0 (0)	19 (12)	22 (2)
Local Government Transparency Code	28/09/16	SD L&G	Adequate	10 (5)	0 (0)	0 (0)	1 (1)	9 (4)
ICU Quality Monitoring Team	26/10/16	SD Q&I	Adequate	6 (3)	0 (0)	2 (0)	4 (3)	0 (0)
Safeguarding - Protection and Court Teams (PACT)	22/11/16	DASS	Limited	13 (5)	0 (0)	0 (0)	8 (4)	5 (1)
IT Network Management and Security	23/11/16	SD D&BO	Adequate	7 (2)	0 (0)	2 (0)	1 (0)	4 (2)
HR Pay and Allowances	20/12/16	CSO	Adequate	13 (8)	0 (0)	3 (3)	10 (5)	0 (0)
Across Schools Thematic Review - Schools Admissions and Attendance	09/02/17	DCS	Adequate	9 (4)	0 (0)	6 (1)	0 (0)	3 (3)
Employers Pensions	10/03/17	CSO	Adequate	6 (2)	0 (0)	2 (0)	4 (2)	0 (0)
Care Leavers	14/03/17	DCS	Adequate	2 (2)	0 (0)	2 (2)	0 (0)	0 (0)

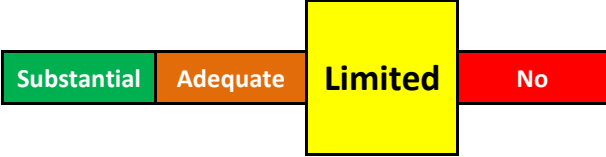
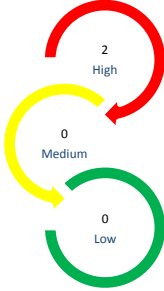
Audit Review	Report Date	Directorate Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Across Schools Thematic Review – Budgetary Control	15/03/17	DCS	Limited	2 (2)	0 (0)	1 (1)	1 (1)	0 (0)
Looked After Children	21/03/17	DCS	Adequate	15 (15)	0 (0)	2 (2)	13 (13)	0 (0)
Urgent Response Service	28/03/17	DASS	Adequate	1 (1)	0 (0)	1 (1)	0 (0)	0 (0)
Contract Management – RFID	29/03/17	SD D&BO	Adequate	2 (1)	0 (0)	1 (0)	1 (1)	0 (0)

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

PACT		
<p>Directorate Sponsor: Richard Crouch, Chief Operations Officer Key Contacts: Phil Bullingham, Service Lead, Safeguarding, Information Governance & Compliance; Jane White, Principal Officer, Looked After Children & Resources; Jacqui Westbury, Quality Assurance Safeguarding Manager; Sharon Hawkins, Interim Service Manager</p> <p>Final Report Issued: 22 November 2016</p>	<p>Assurance opinion:</p> 	<p>Management Actions:</p> 
<p>Summary of key observations:</p> <p>The Child Protection and Court Team (PACT) work directly with children and young people who are at risk of significant harm. The PACT’s responsibilities cover the safeguarding, assessment and protection of children. Referrals are received from the Multi Agency Safeguarding Hub (MASH) and other teams. The service work closely with multi-agency partners, legal advisors and specialist family assessment and intervention services to ensure that children are protected from harm, and have their needs met. The roles and responsibilities of staff were defined and communicated with guidance available via the children’s services practice manual available on the Southampton City Council intranet.</p> <p>Testing found that recording of visits was being made within the stated 48 hours timeframe and client records in PARIS were being updated. However, we found that chronologies were not up to date and did not adhere to the requirements of the published guidance (Laming report or the Children’s Service Practice Manual). Additionally, testing identified gaps in recording of documentation in relation to legal planning meetings and the pre-proceedings process.</p> <p>We were unable to confirm that supervision agreements were in place for staff and managers. Additionally, we found that some supervision sessions were not recorded as being held within the six week timescale. The Council has an action plan in response to the 2015 Ofsted inspection, and one of the issues raised by Ofsted was that “the supervision of social workers does not consistently promote reflective practice”.</p> <p>The PACT Team Managers received weekly updates via “SKIRT” reports (Safeguarding Key Indicators Reporting Tool), which were supplemented by a new report in January 2016. However, the new report contains known issues with regard data accuracy of case activity. This is currently being corrected, with key staff from children services and performance management working together to ensure reports are as accurate as possible.</p>		

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SEND		
<p>Directorate Sponsor: Richard Crouch, Chief Operating Officer</p> <p>Key Contacts: Kim Drake, Service Director, Children’s & Families; Jo Cassey, Principal Officer, Education & Early Years; Simon McKenzie, Service Manager, Kalvinder Garewal, SEND Manager, Phil Bullingham, Service Lead Standards & Improvements.</p> <p>Final Report Issued: 17 November 2016</p>	<p>Assurance opinion:</p> 	<p>Management Actions:</p> 
<p>Summary of key observations:</p> <p>Testing of a sample of Education, Health and Care Plans (EHCPs) applications identified that statutory timeframes throughout the process were not being achieved. In particular, the issuing of draft EHCPs within 16 weeks and final EHCPs within 20 weeks were not being met in the majority of cases. This was due to a variety of factors, including the reliance of external agencies providing information in addition to the SEND Team not quality checking or completing plans within the relevant timeframes.</p> <p>Testing reviewed the process for transferring children across from a “statement” to an EHCP (per DfE requirements by 1 April 2018). The timeframe for a transferred EHCP is 12 weeks. None of the transfers tested within our sample met this statutory timeframe</p> <p>We found that within the last 12 months, the SEND Team had introduced a centralised spreadsheet to assist with monitoring the progress of applications and identify which parts of the process were not meeting required deadlines. Testing identified that the Business Support Team, who maintain the spreadsheet were not keeping this record up to date.</p> <p>Our review highlighted issues with budgetary control and reporting. We found that there had been no historical detail to identify where the service are in terms of the level of provision or the cost of ‘high cost placements’, which reported a £500,000 overspend during 2015/16. We were advised that going forward regular monthly meetings were to be established between the designated accountant and the SEN Service Manager to address financial control, monitoring and spending issues.</p> <p>All management actions raised to mitigate identified risks have been implemented.</p>		

Across Schools Thematic Review – Budgetary Control		
<p>Directorate Sponsor: Richard Crouch, Chief Operating Officer</p> <p>Key Contacts: Jo Cassey, Service Lead Education & Early Help; Irfan Khan, Principal Accountant; Glenda Lane Governance & Leadership Advisor</p> <p>Final Report Issued: 15 March 2017</p>	<p>Assurance opinion:</p> 	<p>Management Actions:</p> 
<p>Summary of key observations:</p> <p>Governors maintain overall budget responsibility for the school, as such the recording of budget approval and monitoring by the Governing Body is vital to ensure that it can be demonstrated that Governors are kept up to date on the financial position of the school and that spending/budget decisions are clearly documented. Whilst it was apparent that financial planning, budget approval and in year monitoring was taking place, the frequency and robustness was not routinely evident based upon the information available.</p> <p>We tested to ensure that the main school budget for each of the ten schools visited had been approved by Governing Bodies. We were unable to evidence appropriately minuted Governor approval of the initial budget setting for nine of the ten schools. Five schools had additional community budgets for which we were unable to find evidence of appropriate approval.</p> <p>The main school budget must be re-approved if it is revised and we found that nine of the ten had not been minuted appropriately as having been approved. The five additional community budgets also did not demonstrate approval of their revision.</p> <p>Schools are required to print budget monitoring reports on a regular basis for review and reporting to Governors. While the review found that variations had been identified through the year and reported to Governors for all ten schools, the evidencing of financial analysis was inconsistent. Nine of the ten schools were unable to demonstrate both printing and review of their monitoring reports. We were also unable to see evidence of appropriate monitoring of the five additional budgets.</p>		

6. Fraud and Irregularities

In accordance with the Local Government Transparency Code 2015 there is a requirement on local authorities to publish the following information with regard counter fraud work:

Local Government Transparency Code 2015	01.04.2016 – 05.03.2017
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	91 days
Total number of (new) fraud cases investigated	6 **

*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 2016/17 was approved by the Council's Management Team and the Governance Committee in April 2016.

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
2016-17 Reviews (incl. 2015-16 Carry Forward)									
Corporate Cross Cutting									
Transformation – Governance and Programme Management	TD	✓	✓	✓	✓	✓	Adequate	✓	15/16
Business Continuity and Emergency Planning (Follow up)	SD D&BO	✓	✓	✓	✓	✓	N/A	✓	15/16
Health and Safety (Follow up)	SD D&BO	✓	✓	✓	✓	✓	N/A	✓	15/16
Transformation	TD	✓	✓	✓	-	✓	N/A	✓	
Health and Safety	SD D&BO	✓	✓	✓	✓			⌚	Draft report issued 17/02/17.

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	CSO	✓	✓	✓	✓	✓	Adequate	✓	
Corporate Governance									
Annual Governance Statement (Assurance Statement)	SD L&G	-	-	✓	-	✓	Adequate	✓	
Proactive Fraud Review – Billing of mobile devices	SD F&C	-	-	✓	✓		N/A	✗	Draft report issued 11/01/17
National Fraud Initiative	SD F&C	-	-	✓	-	-	N/A	✓	
Local Government Transparency Code 2015	SD L&G	✓	✓	✓	✓	✓	Adequate	✓	
Financial management									
Housing Rents and Debt Management	SD F&C	✓	✓	✓	✓	✓	Substantial	✓	15/16
Income Collection and Transactions (Port Health)	SD F&C	✓	✓	✓	✓	✓	Adequate	✓	
Accounts Payable	SD F&C	✓	✓	✓	✓	✓	Substantial	✓	15/16
Main Accounting System	SD F&C	✓	✓	✓	✓	✓	Adequate	✓	15/16
Payroll	SD F&C	✓	✓	✓	✓	✓	Substantial	✓	15/16
Employers Pensions	CSO	✓	✓	✓	✓	✓	Adequate	✓	

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Accounts Receivable & Debt Management	SD F&C	✓	✓	✓	✓			✓	Draft report issued 24/03/17.
NNDR	SD F&C	✓	✓	✓	✓	✓	Adequate	✓	
Housing Benefits (inc Council Tax Reduction Scheme)	SD F&C	✓	✓	✓	✓	✓	Substantial	✓	
IT									
Telecommunications	SD D&BO	✓	✓	✓	✓	✓	Limited	✓	15/16
IT Applications and Operating Systems	SD D&BO	✓	✓	✓	✓			✓	Draft report issued 08/03/17
Network Management and Security	SD D&BO	✓	✓	✓	✓	✓	Adequate	✓	
Virtualisation	SD D&BO	✓	✓	✓	✓	✓	Adequate	✓	
Cyber Essentials Scheme – Assurance mapping	SD D&BO	-	-	✓	-	-	N/A	✓	
Strategic Objectives									
Arts and Heritage	SD G	✓	✓	✓	✓	✓	Substantial	✓	15/16
Across Schools Thematic Review – Compliance with Procurement Rules	DCS	✓	✓	✓	✓	✓	Limited	✓	15/16

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Safeguarding - Protection and Court Teams (PACT)	DASS	✓	✓	✓	✓	✓	Limited	✓	15/16
Integrated Commissioning Unit – Governance	SD Q&I	✓	✓	✓	✓	✓	Adequate	✓	15/16
Integrated Commissioning Unit – Domiciliary Care Procurement	SD Q&I	✓	✓	✓	✓	✓	Adequate	✓	
Housing – Stock Control (follow up)	DASS	✓	✓	✓	✓	✓	N/A	✓	15/16
Leisure - contract management	SD D&BO	✓	✓	✓	✓	✓	Limited	✓	15/16
Adoption	DCS	✓	✓	✓	✓	✓	Limited	✓	15/16
Better Care Fund	SD Q&I	✓	✓	✓	✓	✓	Substantial	✓	15/16
Care Act	DASS	✓	✓	✓	✓			✗	Draft report issued 25/08/16
Families Matters governance review	DCS	✓	✓	✓	✓	✓	N/A	✓	15/16
Safeguarding - Adults	DASS	✓	✓	✓	✓	✓	Limited	✓	15/16
Continuing healthcare	DASS	✓	✓	✓	✓	✓	Adequate	✓	15/16
Fostering	DCS	✓	✓	✓	✓	✓	Limited	✓	15/16
Direct payments	DASS	✓	✓	✓	✓	✓	Limited	✓	15/16
Quality assurance	DASS	✓	✓	✓	✓	✓	Limited	✓	15/16

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
DOLS	DASS	✓	✓	✓	✓	✓	Limited	✓	15/16
Public Health	SD PH	✓	✓	✓	✓	✓	Limited	✓	15/16
Across Schools Thematic Review – Budgetary Control	DCS	✓	✓	✓	✓	✓	Limited	✓	
Across Schools Thematic Review - Schools Admissions and Attendance	DCS	✓	✓	✓	✓	✓	Adequate	✓	
0-25 Special Educational Needs	DCS	✓	✓	✓	✓	✓	Limited	✓	
Short Breaks	DCS	✓	✓	✓				✓	
SFVS - School Financial Value Standard (Return)	SD F&C	✓	-	✓	-	-	N/A	✓	
SFVS – Analysis/Follow-up	SD F&C	✓	-	✓	-	✓	N/A	✓	
Childrens Safeguarding – End to End Case Review	DCS	✓	✓	✓				✓	
Care Leavers	DCS	✓	✓	✓	✓	✓	Adequate	✓	
Looked After Children	DCS	✓	✓	✓	✓	✓	Adequate	✓	
Direct payments	DASS	✓	✓	✓	✓			✓	Draft report issued 27/03/17
Families Matters grant claim 1	DCS	✓	-	✓	-	✓	N/A	✓	

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Families Matters grant claim 2	DCS	✓	-	✓	-	✓	N/A	✓	
Families Matters grant claim 3	DCS	✓	-	✓	-	✓	N/A	✓	
Families Matters grant claim 4	DCS	✓	-	✓	-	✓	N/A	✓	
ICU – Care Placement Service	SD Q&I	✓	✓	✓	✓	✓	Adequate	✓	
ICU – Quality Monitoring Team	SD Q&I	✓	✓	✓	✓	✓	Adequate	✓	
Urgent Response Service	DASS	✓	✓	✓	✓	✓	Adequate	✓	
Capital Programme Management	SD G	✓	✓	✓	✓			✓	Position statement. issued 28/03/17
Port Health	SD T&US	✓	✓	✓	✓			✓	Draft report issued 15/03/17.
CIL – Community Infrastructure Levy	SD G	✓	✓	✓	✓			✓	Draft report issued 15/03/17.
Housing Depot Review	DASS	✓	✓	✓	✓	✓	N/A	✓	
Procurement	SD D&BO	✓	✓	✓					
Contract Management – RFID	SD D&BO	✓	✓	✓	✓	✓	Adequate	✓	
Contract Management – Supported Buses	SD D&BO	✓	✓	✓	✓			✗	Draft report issued 30/09/17
Contract Management – Highways	SD D&BO	✓	✓	✓	✓			✓	Draft report issued 28/03/17.

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
ICU – Contract Management	SD Q&I	✓	✓	✓					
Joint Venture – PSP	TD	✓	✓	✓				✓	
Bitterne Sixth Form – Capital Project	SD F&C	✓	✓	✓	✓	✓	N/A	✓	
PUSH	SD F&C	✓	✓	✓	✓	✓	Substantial	✓	
Local Transport Capital Block Funding	SD F&C	✓	-	✓	-	✓	N/A	✓	
Disabled Facilities Grant	SD F&C	✓	-	✓	-	✓	N/A	✓	
Local Authority Bus Subsidy Grant	SD F&C	✓	-	✓	-	✓	N/A	✓	

Complete 58. NB excludes Capital and asset management as revised this to DR issued.

WIP 16 (report issued 11, report due 5)

27/03/17

Key	Audit Sponsor HUB (Service Director)
CSO	(Chief Strategy Officer)
DASS	Operations (SD Housing, Adults & Communities)
DCS	Operations (SD Children & Families)
SD D&BO	Transformation (SD Digital & Business Operations)
SD F&C	Strategic (SD Finance & Commercialisation)
SD G	Operations (SD Growth)
SD L&G	Strategic (SD Legal & Governance)
SD PH	Strategic (Director of Public Health)
SD Q&I	Strategic (Director of Quality & Integration)
SD T&US	Operations (SD Transactions & Universal Services)
TD	Transformation (Transformation Director)

Agenda Item 9

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	INTERNAL AUDIT & COUNTER FRAUD CHARTER & CODE OF ETHICS 2017-18		
DATE OF DECISION:	24 TH APRIL 2017		
REPORT OF:	CHIEF INTERNAL AUDITOR		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Elizabeth Goodwin	Tel: 023 80
	E-mail:	Elizabeth.Goodwin@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80834897
	E-mail:	Mel.Creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
None.			
BRIEF SUMMARY			
<p>On 1st April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK.</p> <p>The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced.</p> <p>The purpose of the PSIAS are to:</p> <ul style="list-style-type: none"> • define the nature of internal auditing within the UK public sector • set basic principles for carrying out internal audit in the public sector • establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and • establish the basis for the evaluation of internal audit performance and to drive improvement planning. <p>Conformance to the standards must be reported by the Chief Internal Auditor in the annual audit report as part of the opinion on the internal control framework.</p> <p>The requirements of the Standards are covered in the attached Internal Audit & Counter Fraud Charter & Code of Ethics, Appendix 1.</p>			
RECOMMENDATIONS:			
	(i)	That the Governance Committee approves the Internal Audit & Counter Fraud Charter & Code of Ethics as attached.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to periodically review the internal audit charter and present it to the Governance Committee for approval.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None		

DETAIL (Including consultation carried out)	
3.	The Internal Audit & Counter Fraud Charter & Code of Ethics has been approved by the s151 Officer who has the responsibility for maintaining an adequate and effective internal audit function within Southampton City Council.
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 the Public Sector Internal Auditing Standards.
<u>Other Legal Implications:</u>	
7.	None
POLICY FRAMEWORK IMPLICATIONS	
8.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Internal Audit & Counter Fraud Charter & Code of Ethics 2017-18
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

None.	12A allowing document to be Exempt/Confidential (if applicable)
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Introduction

1. On 1st April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. The PSIAS replace the CIPFA Code of Practice for Internal Auditors in Local Government in the UK and encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).
2. The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced. The requirements of the Standards are covered in this Internal Audit & Charter & Code of Ethics. The Standards have been revised from 1 April 2016 to incorporate the mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.

Authority

3. The Accounts and Audit Regulations 2015 Section 5, define the requirement for an internal audit function within Local Government stating that:
'A relevant authority 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'

Responsibility

4. The responsibility for maintaining an adequate and effective internal audit function within Southampton City Council lies with the Chief Finance Officer (S151 Officer).
5. For the Council, the internal audit function is delivered in collaboration with Portsmouth City Council ('PCC') with the service being delivered under the direction and control of a shared Chief Internal Auditor (the Chief Internal Auditor for PCC).
6. The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the '*Definition of Internal Auditing*', the '*Code of Ethics*' and '*the Standards*'.

Definitions

7. In accordance with the PSIAS the definition of Internal auditing is;

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's 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'.

8. Internal Audit is not an extension or a substitute for good management although it can advise management on risk and control issues. It is the duty of management to operate adequate systems of internal control and risk management.
9. The Internal Audit section will consider the adequacy and effectiveness of the internal control framework detailed below which aid in supporting the Authority's vision.
 - Achievement of organisation's strategic objectives;
 - Reliability and integrity of financial and operational information;
 - Effectiveness and efficiency of operations and programmes;
 - Safeguarding of assets; and
 - Compliance with laws, regulations and rules, policies, procedures and contracts.
10. In accordance with the PSIAS the definition of 'the board' and 'senior management' are;
11. *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.
12. *Senior Management* – those responsible for the leadership and direction of the Council. At the Council this means the Chief Executive, Chief Strategy Officer, Chief Operating Officer and the Service Directors of the council.

Purpose and scope

13. The Internal Audit section at Southampton City Council will provide an Annual Internal Audit Opinion based on an objective assessment of the Authority's framework of governance, risk management and control. It will also provide advice and consultancy services at the specific request of the Authority, with the aim of improving governance, risk management and control whilst contributing to the overall Annual Opinion.
14. The Annual Internal Audit Opinion must incorporate;
 - The Opinion;
 - A summary of the work that supports the Opinion; and
 - A statement on conformance with PSIAS and the results of the quality assurance and improvement programme.
15. The Internal Audit section will not be restricted to the audit of financial systems and controls but will cover all operational and management controls. There are therefore no scope limitations, in that all of the Authority's activities fall within the remit of the Internal Audit section; however consideration will always be given to the competency,

- qualification and experience of those auditors tasked with carrying out the individual assignments. For example Internal Audit will not make judgements or evaluations on care or academic assessments; equally it is not in the section's remit to give an opinion on the appropriateness of policy decisions.
16. Consultancy activities (i.e. advice, facilitation, counsel and training) the nature and scope of which will be agreed with the client and are intended to add value and improve the Council's governance, risk management and control processes without the Internal Audit section assuming responsibility.
 17. Special reviews may be conducted at the request of Members, Chief Executive and the s151 Officer. The Internal Audit section may also conduct investigations as requested by the Investigation Steering Panel - ISP (consisting of the Monitoring Officer, s151 Officer, Service Director for Human Resources & Organisational Development and the Chief Internal Auditor (or deputy), provided such reviews (special or investigation) do not compromise its objectivity or independence.
 18. The impact on the Audit Plan must be assessed and, if necessary, the Plan reprioritised by the Chief Internal Auditor. Any significant changes must be reported to the Senior Leadership Team (consisting of the Chief Executive, Chief Strategy Officer, Chief Operating Officer and the s151 Officer) as well as the Members of the Governance Committee (the Board) in their next reporting cycle.
 19. Fraud prevention and detection is the responsibility of managers. However if Internal Audit detects any suspected irregularities during the course of their activities they will report them to ISP. The Chief Internal Auditor may review the system for control weaknesses but any investigation will be under the direction of ISP.

Organisational Independence

20. The Internal Audit section has no operational responsibilities for any financial systems, including system development and installation. It may however provide advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.
21. The Chief Internal Auditor will be free from interference (although have due regard for the Authority's key objectives and risks and consult with Members and Officers charged with governance) when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.

22. Internal Audit is supported by the Authority and its independence is seen as key to providing Southampton City Council with an effective service.
23. The Internal Audit section will have free and unfettered access to the Senior Management, defined as s151 Officer, Chief Executive, Monitoring Officer, Chief Strategy Officer, Chief Operating Officer and Service Directors. In addition the Internal Audit section will have free and unfettered access to the Leader of the Council and the Chair of the Governance Committee.

Responsibilities of Individual officers

Chief Internal Auditor

24. The Chief Internal Auditor must ensure that:
 - (1) They identify the overall remit of audit activity
 - (2) They carry out an audit needs risk assessment and prioritise the results into an annual plan in consultation with the s151 Officer, Chief Executive, Monitoring Officer, Chief Strategy Officer, Chief Operating Officer, Service Directors, and Chair of Governance Committee.
 - (3) The Internal Audit resources are appropriate and sufficient i.e. in skills and knowledge and are effectively deployed to achieve the approved annual audit plan. Any inadequacies will be raised with the s151 Officer and the Governance Committee.
 - (4) There are adequate policies and procedures in place to guide the Internal Audit activities and in accordance with PSIAS.
 - (5) The Internal Audit section complies with the PSIAS and Code of Ethics at all times.
 - (6) They periodically review the Internal Audit Charter and Audit Strategy for adequacy and effectiveness.
 - (7) Constructive working relationships are fostered and encouraged between auditors, auditees, managers, and external auditors.
 - (8) The Internal Audit section maximises the use of technology for an effective service delivery.
 - (9) Confidentiality is maintained at all times.
 - (10) Individual auditors do not audit activities for which they previously had responsibility within the last 12 months.
 - (11) They take all reasonable measures to ensure that all individual auditors have an objective frame of mind and be in a sufficiently independent position to be able to exercise judgement with impartiality.
 - (12) A follow-up process to monitor and ensure that management actions have been effectively implemented is undertaken promptly.

- (13) Where management has accepted a level of risk that may be unacceptable to the Authority that the matter is discussed with the s151 Officer, Chief Executive, Chief Strategy Officer, Chief Operating Officer and Service Directors as relevant, or escalated to the Governance Committee to resolve.
- (14) They continuously review the quality, effectiveness and provision of the Internal Audit Section.
- (15) Access to audit records is controlled and only released in accordance with Freedom of information and Data Protection Act requirements.
- (16) All records relating to Internal Audit activities are retained for the required period and in line with the Authority's guidelines.
- (17) They assist the Governance Committee with their agenda and attend each meeting.

Individual Auditors

25. All individual auditors must ensure that they:

- (1) Maintain an impartial and unbiased attitude and avoid any conflict of interest.
- (2) Will refrain from assessing any activity to which they were previously responsible within the last twelve months, although they may provide consulting services.
- (3) Possess the knowledge, skills and other competencies needed to perform their individual responsibilities and that they enhance those skills through continuing professional development.
- (4) Exercise due professional care at all times.
- (5) Assist management in establishing or improving risk management processes, without managing those risks.
- (6) Give adequate notice of the start of a planned audit
- (7) Develop and document a plan of each assignment detailing its objectives, scope and any limitations, timing and resource allocations.
- (8) Consider the objectives, risks, effectiveness of the control framework, value for money obtained, of the activity under review, when planning and setting the objectives of each assignment.
- (9) Develop and document a programme of works that achieves the audit objectives.
- (10) Document sufficient information on their identification, analysis and evaluation of risks and controls within the area of audit activities, i.e. that the evidence is reliable, factual and adequate.
- (11) Communicate their findings based on opinion ascertained from these evaluations, providing an overall conclusion/ assurance level, risk rating, recommendations (where relevant) and proposed action plans.
- (12) Communicate all findings in an accurate, objective, clear, concise, constructive, complete and timely manner in accordance with PSIAS.
- (13) Agree a plan of action with the Service to remedy control weaknesses
- (14) Comply with the Audit Manual and PSIAS.
- (15) Maintain professional independence, objectivity, integrity and confidentiality

- (16) Inform the Chief Internal Auditor of any areas where they could have a conflict of interest which could impair or be perceived to impair their objectivity
- (17) Maintain proper documented files supporting conclusions via Audit Management Software
- (18) Hold in safe custody any documents or property or other material obtained for audit use or investigation.
- (19) Act with due care to provide “reasonable” assurance on the adequacy of control
- (20) Foster good working relationships with auditees, external auditors and service leads and managers

S151 Officer

26. The s151 Officer has the authority to ensure that the provision of the Internal Audit section is sufficient to meet the s151 requirements.
27. The s151 Officer must ensure that:
 - (1) Any suspected irregularities are properly and appropriately investigated and action taken.
 - (2) S/he is satisfied that the Annual Audit Opinion assurance statement either on its own or as part of the Annual Governance Statement, reflects accurately the position of the control framework.
 - (3) The Internal Audit section is sufficiently resourced and is effective and in the event that it is not that this is raised with the s151 Officer and members of the Governance Committee.

Chief Executive

28. The Chief Executive 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.

Monitoring Officer

29. The Monitoring Officer is responsible for:
 - (1) Ensuring lawfulness and fairness in decision making
 - (2) Dealing with investigations into matters referred by the Governance Committee and making reports or recommendations in respect of them to the Governance Committee and
 - (3) Providing advice on:
 - the scope of powers to take decisions
 - maladministration
 - financial impropriety
 - probity.
 -

Members

30. The Members as the corporate body 'the board', have the responsibility to ensure that there is a current and effective Internal Audit function. These responsibilities are delegated to the Governance Committee and include ensuring that:
31. They are satisfied on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.
32. They are satisfied that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies.
33. They receive, and make recommendations on, such reports as are required in relation to all audit matters including the Annual Audit Plan.
34. The Committee shall specifically have responsibility for oversight on the following functions:
 - (1) ensuring that Council assets are safeguarded;
 - (2) maintaining proper accounting records;
 - (3) ensuring the independence, objectivity and effectiveness of internal and external audit;
 - (4) the arrangements made for cooperation between internal and external audit and other review bodies;
 - (5) considering the reports of internal and external audit and other review and inspection bodies;
 - (6) the scope and effectiveness of the internal control systems established by management to identify, assess, manage and monitor financial and nonfinancial risks (including measures to protect against, detect and respond to fraud).

Auditees

35. In accordance with the Council's constitution (Part 4 - Financial Rules Section C.12 - C.24). All persons under the controls of SCC; staff, members, contractors, temporary and agency staff must ensure that:
 - (1) They maintain a constructive approach to Internal Audit.
 - (2) Must present any cash, stores or any other authority asset under his or her control if requested to do so by an Auditor.
 - (3) Must ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
 - (4) Must ensure that auditors are provided with any information and explanations that they seek in the course of their work.

- (5) They respond promptly and formally to audit reports within the agreed timescale
- (6) They implement agreed actions and within an agreed timed action plan.

External Auditors

- 36. The Internal Audit section is expected to co-operate and regularly liaise with the external auditors to ensure an efficient and effective use of resources is achieved and unnecessary over-lapping of work is avoided.
- 37. The external auditors have a responsibility to assess whether Internal Audit arrangements are adequate and will, where they are able, place reliance on Internal Audit work when forming their opinion on the Authority's accounts.

Reporting Structure

- 38. On an annual basis the Chief Internal Auditor will present for review and approval any changes to the Internal Audit Charter and Code of Ethics, the Internal Audit Strategy and the annual audit plan of activities, including resource requirements and any perceived deficiencies to the Governance Committee, following consultation with the s151 Officer, Chief Executive, Chief Strategy Officer, Chief Operating Officer, Service Directors and relevant members.
- 39. An update on progress and performance to the audit plan will be presented at each Governance Committee. This will include any significant risk exposure and control issues, including fraud and governance risks.
- 40. Where critical risks, or a significant number of high risks are identified as part of an audit review, (i.e. those control weaknesses that could have a significant impact on the achievement of the Authority's objectives) which result in a no assurance opinion, will be reported in summary as part of the 'progress to plan' reporting. All other findings will be summarised in a covering report.
- 41. It is for management to determine whether or not to accept the audit exceptions and to recognise and accept the risks of not taking action. They must formally respond giving reasons for their decisions. In the event that risks are accepted they may be raised with the Senior Leadership Team to ascertain whether such acceptance is in line with the strategic direction and risk appetite of the Council. As a result they may also be reported to Members of the Governance Committee 'the Board' in their next reporting cycle. Where agreed action is proposed on critical/high risks but has not been taken within a reasonable timeframe the matter will be raised with the Service Director concerned and escalated if need to Senior Leadership Team in the event that they cannot be resolved satisfactorily via discussion with the Chief Internal Auditor.
- 42. All reviews of the Annual Audit Plan will be presented for approval [to the Governance Committee] along with any significant consulting services not already included in the Audit Plan, prior to accepting the engagement.

43. All reports issued in relation to any audit or counter fraud activity will be issued in the name of the Chief Internal Auditor.

Access to records and personnel

44. All Internal Auditors have right of access to all premises, personnel, documents and information they consider necessary for the purpose of their reviews as specified in the Council's constitution (Part 4 - Financial Rules Section C.12 - C.24) and to obtain such information and explanations from any employee as necessary concerning any matter under review/investigation.
45. All Internal Auditors also have the power to require any council employee, agent or Member to produce cash, equipment, computers or other Council property under their control. Internal Audit can retain or seize these items in order to protect the Council's interest, or to preserve evidence, if a suspected irregularity has occurred before considering whether to refer the issue to the Police. Consultation with the Investigation Steering Panel will be carried out in advance of contacting the Police where possible.

Due Professional Care

46. Both the Chief Internal Auditor and Deputy Chief Internal Auditor must hold a professional qualification and current membership, CMIIA, CCAB or equivalent and be suitably experienced.
47. The Chief Internal Auditor will assess on an annual basis the knowledge, skills and other competencies required within the Internal Audit section in order for it to fulfil its purpose and effectively carry out professional duties in accordance with statutory requirements. This will include technology- based audit techniques to perform assignment work. Should there be insufficiencies identified these will be reported immediately to the s151 Officer and reported to the Governance Committee if there is likely to be an impact on achieving either the Annual Audit Plan or a sufficient level of reviews to enable an effective annual audit opinion to be made.
48. All Internal Auditors will have sufficient knowledge through training and continued professional development to carry out their duties including evaluating the risk of fraud; however it remains the responsibility of management to detect and manage fraud.
49. Any impairment either in fact or appearance on any individual auditor's independence or objectivity will be escalated to the s151 officer, if the Chief Internal Auditor has been unable to resolve. Impairment may include, but is not limited to, personal conflict of interest, scope limitation, restrictions on access to records,

personnel and properties and resource limitation, such as funding. A record will be made of any action taken.

Quality Assurance & Improvement Programme

50. The Chief Internal Auditor will develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit & counter fraud activities. In order to achieve this, internal on-going supervision will be carried out after each audit assignment with the results recorded in 'TeamMate' (the electronic working papers). Along with the recording of one-to-one meetings and an Annual Performance Review on each individual auditor.
51. In addition to this the Chief Internal Auditor will carry out an annual self-assessment of the Internal Audit sections performance against PSIAS, measuring the compliance with the definition of Internal Audit and Code of Ethics.
52. External peer reviews will be conducted every five years against PSIAS. The scope of the external assessment will be agreed with the s151 Officer and the Chair of Governance Committee. All results i.e. compliance or non-compliance with the standards, will be communicated to the Governance Committee along with an improvement plan if required and regular progress reports.
53. Any significant deviations from the Standards will be included in the Annual Governance Statement.
54. The effectiveness of the Internal Audit Section will be measured by;
 - (1) Risks to the Authority are identified and mitigated by agreed actions being implemented re critical and high risk exceptions highlighted in Audit reviews.
 - (2) Compliance with the PSIAS and Code of Ethics (reviewed by Peer Review)
 - (3) Satisfactory External Audit reviews (when carried out)
 - (4) External Auditors are able to rely on the work of Internal Audit when forming their opinion on the Authority's accounts.
 - (5) Audits completed to plan (90% of high risk audits completed)
 - (6) Satisfactory responses received from clients by means of end of year questionnaires.

Management of Internal Audit Activities

55. The Chief Internal Auditor will ensure that the work of the Internal Audit section is of value to the Authority. This will be achieved by ensuring that the work carried out achieves its purpose as included in this charter and that all individual auditors have demonstrated conformance with the Code of Ethics and Standards.

56. The priorities of the Internal Audit section will be determined annually using a risk based methodology and in consideration with the Authority's overall objectives. The risk-based approach will take into account the risk management framework and risk appetite levels along with each directorate's performance as reported to Governance Committee. Details of how the plan will be delivered are contained in the Internal Audit Strategy along with any reliance placed on other sources of assurance work.
57. The Annual Audit Plan will be reviewed in response to changes in the Authority's risks, operations, systems and controls at least once during the year.

This Charter and Code of Ethics are agreed by

.....
Elizabeth Goodwin
Chief Internal Auditor

Date

.....
Mel Creighton
Chief Finance Officer s151 Officer

Date

.....
Cllr Stephen Barnes-Andrews
Chair of Governance Committee

Date

Related Papers:

Audit Strategy and Audit Annual Plans
Public Sector Internal Audit Standards and Code of Ethics
Accounts and Audit Regulations (updated)

Annex 1

Code of Ethics

Extract from the Public Sector Internal Audit Standards 2016

Public sector requirement

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the Code of Ethics as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of internal auditing to include two essential components:

Components

- 1 Principles that are relevant to the profession and practice of internal auditing;
- 2 Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

Public sector interpretation

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.

Public Sector Internal Audit Standards

1 Integrity

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2 Objectivity

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3 Confidentiality

Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors:

3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4 Competency

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.

4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.

4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

Public sector requirement

Internal Auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life, information on which can be found at www.public-standards.gov.uk

Annex 2

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 will also provide specialist skills and knowledge to lead on fraud/ irregularity investigations, and ascertain the effectiveness of fraud prevention controls and detection processes.

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.

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DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		ANNUAL INTERNAL AUDIT PLAN 2017-18	
DATE OF DECISION:		24 TH APRIL 2017	
REPORT OF:		CHIEF INTERNAL AUDITOR	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Elizabeth Goodwin	Tel: 023 80
	E-mail:	Elizabeth.Goodwin@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80834897
	E-mail:	Mel.Creighton@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
None.			
BRIEF SUMMARY			
<p>On an annual basis the Chief Internal Auditor is required to produce an Annual Plan that translates into a schedule of audit assignments. The plan defines the areas and potential scope inclusion and must provide a sufficient review of the Authority's functions in order to form an annual opinion on the effectiveness of the control framework. The plan must be proportionate to the risk exposure and appropriately aligned to the strategic objectives of the Council.</p> <p>With effect from 1st April 2017 the internal audit & counter fraud function will be delivered in collaboration with Portsmouth City Council (PCC) under the direction and control of the shared Chief Internal Auditor (the Chief Internal Auditor for PCC).</p> <p>As this is a new arrangement, the 2017-18 Annual Audit Plan presented is a provisional plan that will be extended during the quarter 1 and represented to this committee. The reason for the provisional plan is to allow the Chief Internal Auditor to accurately assess the needs of the Council following discussions with all members of the senior management team and relevant members.</p>			
RECOMMENDATIONS:			
	(i)	That the Governance Committee approves the provisional Annual Internal Audit Plan for 2017-18 as attached.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	In accordance with internal audit practices and protocol, the Governance Committee is required to approve, but not direct the annual audit plan for Internal Audit & Counter Fraud.		
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED			
2.	None		
DETAIL (Including consultation carried out)			
3.	1.	The provisional Internal Audit Plan for 2017-18 has been approved by the Council's Management Team.	
	2.		

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 the Public Sector Internal Auditing Standards.
<u>Other Legal Implications:</u>	
7.	None
POLICY FRAMEWORK IMPLICATIONS	
8.	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Annual Internal Audit Plan 2017-18
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)
None	

Audit	Audit Sponsor	Strategic Risk Registers	Council Outcomes	Provisional Draft Scope
Local Transport Capital Block funding	Strategy (SD Finance & Commercialisation)	1,2,7	1,5	Grant certification
Disabled Facilities Grant	Strategy (SD Finance & Commercialisation)	3a,3b,8,9	3	Grant certification
Local Sustainable Transport Fund Bus Subsidy	Strategy (SD Finance & Commercialisation)	3a	1,3	Grant certification
Housing Benefit	Strategy (SD Finance & Commercialisation)	Key Financial System	3	Review of the key controls
NNDR	Strategy (SD Finance & Commercialisation)	Key Financial System	5	Review of the key controls
Financial Management	Strategy (SD Finance & Commercialisation)	Key Financial System	5	Review of the key controls
Accounts Receivable and Debt Management	Strategy (SD Finance & Commercialisation)	Key Financial System	1,5	Review of the key controls
Payroll	Strategy (SD HR & OD)	Key Financial System	5	Review of the key controls
Housing Rents and Debt Management	Strategy (SD Finance & Commercialisation)	Key Financial System	5	Review of the key controls
Accounts Payable	Strategy (SD Finance & Commercialisation)	Key Financial System	5	Review of the key controls
Bank Account	Strategy (SD Finance & Commercialisation)	Key Financial System	5	Review of the key controls
VAT	Strategy (SD Finance & Commercialisation)	Key Financial System	5	Review of the key controls
Treasury Management	Strategy (SD Finance & Commercialisation)	Key Financial System	5	Review of the key controls
Income and Collection Sites	Strategy (SD Finance & Commercialisation)	Key Financial System	5	Review of the key controls
Council Tax	Strategy (SD Finance & Commercialisation)	Key Financial System	5	Review of the key controls

Audit	Audit Sponsor	Strategic Risk Registers	Council Outcomes	Provisional Draft Scope
Purchase Cards	Strategy (SD Finance & Commercialisation)	Key Financial System	5	Review of the Key controls
Expenses Travel Subsistence	Strategy (SD HR & OD)	Key Financial System	5	Review of the Key controls
NFI	Strategy (SD Finance & Commercialisation)	Mandatory	2,3,5	NFI matches and enquiries. Coordination of data uploads.
Counter Fraud Plan	Strategy (SD Finance & Commercialisation)	–	1,5	Completion of Counter fraud programme in consultation with s151 Officer
Investigations	All	–	–	To be determined
Contract Strategic Framework	Operations (SD Digital & Business Operations)	7	1,5	Strategic framework for contract oversight governance & reporting arrangements
Contract 1 TBC	Operations (SD Digital & Business Operations)	7	1,5	Performance monitoring arrangements for specific contract
Contract 2 TBC	Operations (SD Digital & Business Operations)	7	1,5	Performance monitoring arrangements for specific contract
Partnership Arrangements	Operations (SD Digital & Business Operations)	1,7	1,5	Governance arrangements and reliance on joint working
Mobile Devices	Operations (SD Digital & Business Operations)	2,5	5	Data Protection arrangements
Email/ Internet Controls	Operations (SD Digital & Business Operations)	2,5	5	Cyber security arrangements
Disaster Recover/ Business Continuity	Operations (SD Digital & Business Operations)	2,5	5	Overview of arrangements and contingencies
Out of City Placements Special Education Needs	Operations (SD Children & Families (DCS))	3b,9	2	Long term strategy and consideration of alternative provisions
Continuing Health Care	Operations (SD Housing, Adults & Communities (DASS))	3a, 8	2,3,5	Adherence to section 75 agreement and shared arrangements

Audit	Audit Sponsor	Strategic Risk Registers	Council Outcomes	Provisional Draft Scope
Fostering Arrangements	Operations (SD Children & Families (DCS))	3b,9	2,3,5	Long term strategy and consideration of alternative provisions
Home to School Transport	Operations (SD Children & Families (DCS))	3b	2,3,5	Long term strategy and consideration of alternative provisions
Residential Care Homes SCC run	Operations (SD Housing, Adults & Communities (DASS))	3a, 8	2,3,5	Scope to include administration of funds/ medication/ onsite support
Sheltered Housing Schemes	Operations (SD Housing, Adults & Communities (DASS))	3a, 8	2,3,5	Scope to include administration of funds/ medication/ onsite support
HR Recruitment	Strategy (SD HR & OD)	3a, 3b	4,5	Scope to include efficiencies of processes
Fire Risk Assessments	Operations (SD Digital & Business Operations)	2, 4	3,4	Compliance with legislative requirements
CCTV	Operations (SD Digital & Business Operations)	3a, 3b	3,5	Compliance with legislative requirements
Asbestos	Operations (SD Transactions & Universal)	2,4	3,5	Compliance with legislative requirements includes all redevelopment sites
Legionella	Operations (SD Transactions & Universal)	2,4	3,5	Compliance with legislative requirements includes school sites
DOLs Deprivation of Liberty	Operations (SD Housing, Adults & Communities (DASS))	3a	3	Compliance with legislative requirements
Project Governance	All	1,7	5	Strategic framework review
PUSH	Strategic (SD Finance & Commercialisation)	–	–	Accountable body assurance
Annual Governance Statement	Strategic (SD Legal & Governance)	1,7	5	Review of a sample of the self assessments returns across the Council.

Audit	Audit Sponsor	Strategic Risk Registers	Council Outcomes	Provisional Draft Scope
Local Authority Tading Company	Transformation & Implementation	1,7	1,5	Governance review/ advisory
Previous Audit Actions Follow up	All	–	–	Follow up to be carried out on Medium Risk Exceptions and above
Advice (general & investigation)	All	–	–	As & when required

Council Outcomes	
No	Priority
1	Southampton is a city with strong and sustainable economic growth
2	Children and young people in Southampton get a good start in life
3	People in Southampton live safe, healthy, independent lives
4	Southampton is a modern, attractive city where people are proud to live and work
5	Strong sustainable Council

Strategic Risk Register	
No	Strategic Risk - Description
1	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 process
2	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
3a	Failure to safeguard vulnerable adults
3b	Failure to safeguard children
4	Failure to meet our health and safety responsibilities
5	Failure to ensure the City Council's information is held and protected in line with Information Governance policies and procedures
6	The Council is unable to quantify the financial impact on both vulnerable individuals and key council services arising from implementation of welfare reforms
7	The Contractual arrangements, in respect of those council services commissioned from and delivered by external organisations/partners, are not sufficiently flexible to the Council's changing services requirements
8	Failure to ensure a financially sustainable adult social care system
9	Failure to ensure a financially sustainable Children's social care system

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