

GOVERNANCE COMMITTEE

Monday, 24th July, 2017
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Committee Room 1 - Civic Centre

This meeting is open to the public

Members of the Committee

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

Contacts

Service Director, Legal and Governance
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Senior Democratic Support Officer
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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

The Southampton City Council Strategy (2016-2020) is a key document and sets out the four key outcomes that make up our vision.

- Southampton has strong and sustainable economic growth
- Children and young people get a good start in life
- People in Southampton live safe, healthy, independent lives
- Southampton is an attractive modern City, where people are proud to live and work

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 2017/18

2017	2018
12th June	12th February
24th July	23rd April
13th November	
11th 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 - 4)

To approve and sign as a correct record the Minutes of the meeting held on 12th June 2017 and to deal with any matters arising, attached.

5 **ANNUAL REPORT ON THE MEMBERS' CODE OF CONDUCT**

(Pages 5 - 10)

To consider the report of the Service Director: Legal & Governance detailing considerations and any further updates to the Members' Code of Conduct, attached.

6 **ANNUAL GOVERNANCE STATEMENT 2016-17**

(Pages 11 - 26)

To consider the report of the Chief Financial Officer seeking to review the draft Annual Governance Statement 2016-17, attached.

7 **FINANCIAL STATEMENTS FOR 2016/17**

(Pages 27 - 160)

To consider the report of the Section 151 Officer detailing the findings of any major changes to the Financial Statements arising from the Annual Audit, attached.

8 **INTERNAL AUDIT PROGRESS REPORT**

(Pages 161 - 170)

To consider the report of the Chief Internal Auditor providing an update on the progress made against the Audit Plan and highlighting any areas of concern, attached.

9 RISK MANAGEMENT DEVELOPMENT PLAN - STATUS REPORT

(Pages 171 - 178)

To consider the report of the Chief Financial Officer providing a progress report in respect of the agreed actions to further develop and embed risk management as a key business process, attached.

10 EXTERNAL AUDIT - AUDIT RESULTS REPORT

(Pages 179 - 180)

To consider the report of the External Auditor, Ernst Young detailing the Audit Results, attached.

11 EXTERNAL AUDIT LETTER OF REPRESENTATION

(Pages 181 - 188)

To consider the report of the External Auditor, Ernst Young seeking approval of the Letter of Representation, attached.

12 DIRECT PAYMENTS

(Pages 189 - 194)

Report of the Service Director, Adults, Housing and Communities outlining the management response to the internal audit report on direct payments, attached.

13 PROCUREMENT (SUB £100K) UPDATE

(Pages 195 - 204)

Report of Service Lead - Supplier Experience detailing the results of the 2016-17 audit of sub £100k procurement activities and remedial actions being taken.

Friday, 14 July 2017

Service Director, Legal and Governance

GOVERNANCE COMMITTEE
MINUTES OF THE MEETING HELD ON 12 JUNE 2017

Present: Councillors Barnes-Andrews (Chair), Inglis, Jordan, Noon, O'Neill (minutes 2-7 and 9-12), Parnell and Keogh

1. **ELECTION OF VICE-CHAIR**

RESOLVED: that Councillor Keogh be elected as Vice-Chair for the 2017/2018 Municipal Year.

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

RESOLVED: that the minutes for the Committee meeting on 24th April 2017 be approved and signed as a correct record.

3. **FREEDOM OF INFORMATION, DATA PROTECTION AND REGULATION OF INVESTIGATORY POWERS ACTS: ANNUAL REVIEW 2016-17**

The Committee received and noted the report of the Service Director; Legal and Governance detailing the Freedom of Information, Data Protection and Regulation of Investigatory Powers Acts Annual Review for 2016-17. The Committee particularly noted the requirements of the new General Data Protection Regulation (GDPR) legislation which would be implemented in May 2018 and the likely impact on the Council.

4. **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2016/17**

The Committee considered the report of the Section 151 Officer detailing the Treasury Management activities and performance for 2016/17 against the approved Prudential Indicators for External Debt and Treasury Management.

RESOLVED:

- (i) That the Treasury Management activities for 2016/17 and the outturn on the Prudential Indicators be noted;
- (ii) That the continued proactive approach to Treasury Management had led to reductions in borrowing costs and safeguarded investment income during the year be noted;
- (iii) That authority to the Section 151 Officer to make any future changes which benefit the authority be continued and reported back at the next Treasury Management update; and
- (iv) That due to timing of the report changes may still be required following finalisation of capital and revenue budgets and therefore any significant changes to the report would be highlighted in the final version presented to Full Council on 19th July 2017.

5. **DRAFT FINANCIAL STATEMENTS 2016-17**

The Committee considered the report of the Section 151 Officer detailing the Draft Financial Statements for 2016/17. In accordance with the Accounts and Audit Regulations 2015 the Financial Statements 2016/17 were signed by the Section 151 Officer on 22nd May 2017 which was earlier than the statutory requirement to have statements signed by 30th June.

The Committee noted that the Annual Audit carried out by the City Council's Auditors Ernst Young commenced on 5th June 2017 and would be due to be completed by 14th July 2017. Any major changes to the Financial Statements arising from the annual audit will be reported to the 24th July 2017 Governance Committee following completion of the audit.

RESOLVED:

- (i) That the Draft Financial Statements 2016/17 that have been signed by the Section 151 Officer be noted; and
- (ii) That the approval of the audited Financial Statements 2016/17 by the Governance Committee would take place on 24th July 2017 be noted.

6. **ANNUAL GOVERNANCE STATEMENT**

The Committee received and noted the report detailing the Annual Governance Statement which the Council was required to develop and publish in accordance with the Accounts and Audit Regulations. The report detailed the extent to which the Council had complied with its Code of Corporate Governance including monitoring and evaluation of the effectiveness of its governance arrangements in the year and on any planned changes in the forthcoming period.

The Committee also noted in accordance with CIPFA Guidance, Governance Committee should be provided with early sight of a draft of the Annual Governance Statement noting that the final version will be signed as part of the Statement of Accounts.

RESOLVED:

- (i) That the draft 2016/17 Annual Governance Statement as detailed in Appendix 1 of the report be noted; and
- (ii) That the status of the 2015/16 Annual Governance Statement Action Plan as detailed in Appendix 2 of the report be noted.

7. **EXTERNAL AUDIT - AUDIT FEE LETTER 2017-18**

The Committee received and noted the report confirming the audit work and associated fee proposed by external audit fee for 2017/18 financial year which was a fee set by Public Sector Audit Appointments Ltd and had been agreed with the Service Director; Finance and Commercialisation.

8. **CHIEF INTERNAL AUDITORS ANNUAL REPORT AND OPINION 2016/17**

The Committee considered the report of the Chief Internal Auditor detailing the Annual Report 2016/17 and providing an opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance.

The Committee noted that the report had concluded that Southampton's City Council's framework of governance, risk management and control was "Adequate" however concern was expressed by the Committee in relation to "direct payments" and "procurement" therefore it was requested that specific agenda items relating to these areas came to the next meeting of the Committee.

Cllr Inglis referred to page 10 of the Annual Report and the total number of employees undertaking investigations and prosecutions of fraud and raised his concerns in relation to the figure quoted and the accuracy of it based on known information in other areas of the Council.

RESOLVED:

- (i) that the Chief Internal Auditor Annual Report and Opinion 2016/17 be approved; and
- (ii) that the Committee considers specific items relating to "direct payments" and "procurement" at its next meeting.

9. **EXCLUSION OF THE PRESS AND THE PUBLIC**

RESOLVED: that the Chair moved in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of the Appendix to the following item.

Confidentiality was based on Category 7(A) of paragraph 10.4 of the Access to Information Procedure Rules. The information contained therein was potentially exempt as it related to information about Council contracts and contractors which may be deemed to be confidential. Having applied the public interest test it was not appropriate to disclose this information as the legal expectation of privacy outweighed the public interest in the exempt information.

10. **STRATEGIC CONTRACTS ANNUAL REPORT**

The Committee considered the Annual Report detailing an overview of the performance, governance and contractual matters and setting out how these contracts contributed to meeting the Priority Outcomes, added value to the Council's operations and achieved value for money.

RESOLVED: that the Strategic Contract Annual Report as detailed in the confidential appendix to the report be noted.

11. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED: that the Chair moved in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained within the Constitution, the press and public be excluded from the meeting in respect of the following item.

Confidentiality was based on Categories 1, 2 and 3 of paragraph 10.4 of the Access to Information Procedure Rules. The information contained therein was potentially exempt as it related to information relating to an individual, information likely to disclose the identity of an individual and information relating to the financial or business affairs of any person including the Authority. Having applied the public interest test it is not appropriate to disclose this information having regard to the nature of a confidential investigation.

12. **HOUSING SERVICES UPDATE**

The Committee received and noted the confidential report providing an update regarding a number of issues relating to Housing Services.

Agenda Item 5

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	ANNUAL REPORT ON THE MEMBERS' CODE OF CONDUCT		
DATE OF DECISION:	24TH JULY 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	
At the time of the adoption of current code of conduct for members in 2012 the Council requested the Service Director: Legal and Governance to produce an annual report outlining the impact of the new code, a summary of the complaints received and any action taken.	
RECOMMENDATIONS:	
	(i) The Committee is asked to note this annual report for the year 2016/17.
REASONS FOR REPORT RECOMMENDATIONS	
1.	Unless there are any changes required to be made to either the Code or the procedures for investigation, this report is only for noting.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	None.
DETAIL (Including consultation carried out)	
3.	The Governance Committee has the following terms of reference in relation to corporate governance and Code of Conduct issues:
	<ul style="list-style-type: none"> • To lead on the Council's duties under Chapter 7 of the Localism Act 2011 and to design, implement, monitor, approve and review the standards of ethics and probity of the Council, both for Councillors and employees. The Committee's powers shall include responding to consultation documents and the promulgation of Codes of Conduct but the adoption and revisions to the local Members Code of Conduct shall be reserved to the Council. • To promote a culture of openness, ready accountability and probity in order to ensure the highest standards of conduct of Councillors and

	employees
	<ul style="list-style-type: none"> To lead 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 conduct.
	<ul style="list-style-type: none"> To oversee and manage programmes of guidance, advice and training on ethics, standards and probity for Councillors and employees and on the Members Code of Conduct.
	<ul style="list-style-type: none"> To be responsible for the Council's register of Members' interests and to receive reports from the Monitoring Officer and Service Director: Legal and Governance on the operation of the register from time to time.
	<ul style="list-style-type: none"> To be responsible for written guidance and advice on the operation of the system of declarations of Members' Interests and to receive reports from the Monitoring Officer on the operation of the system of declarations from time to time.
	<ul style="list-style-type: none"> To establish, monitor, approve and issue advice and guidance to Councillors on a system of dispensations to speak on, or participate in, matters in which they have interests and give dispensation in appropriate cases.
	<ul style="list-style-type: none"> To exercise the functions of the Council in relation to the ethical framework, corporate governance and standards of conduct of Joint Committees and other bodies
	<ul style="list-style-type: none"> To establish a Standards Sub-Committee to investigate and determine appropriate action in respect of alleged breaches of the Members Code of Conduct.
	<ul style="list-style-type: none"> To support the Monitoring Officer and Chief Financial Officer in their statutory roles and the issuing of guidance on them from time to time.
	<ul style="list-style-type: none"> To receive regular reports on the performance of the Corporate Complaints process, Local Government Ombudsman referrals, Annual Governance Statement and Code of Corporate Governance and to recommend revisions to related policies and procedures as appropriate.
4.	The Council has a responsibility for making arrangements to receive and consider complaints against Councillors in Southampton. Stage 1 is receipt and initial consideration and where appropriate informal resolution by the Monitoring Officer. Where warranted, at Stage 2, the Governance Committee will determine the complaint following a detailed investigation by the Monitoring Officer or someone on his behalf.
5.	Since the adoption of the current Members Code of Conduct the Standards Sub Committee has not had cause to meet to consider any allegations of breach of the Members Code of Conduct.
COMPLAINTS RECEIVED	
6.	The Council adopted a revised Members' Code of Conduct consistent with the requirements of the Localism Act 2011 on 11 th July 2012.
7.	In summary, the regime remains fairly low key. All members have completed their Register of Interests, are reminded annually of the need to keep it

	updated (the Register is publicly accessible and viewable online) and a few complaints have been received. All issues/complaints have been resolved by the Monitoring Officer or rejected and advice given to the complainant at Stage 1 of the complaints procedure meaning that there have been no determinations or findings of a failure to comply with the relevant Code of Conduct by the committee.		
8.	The Monitoring Officer (Service Director: Legal & Governance) received eleven (11) complaints about Councillors in 2016/7 which required some preliminary investigation. There are no trends in terms of the subjects specified in complaints. One complaint remains ongoing.		
9.	All complaints are taken seriously and investigated as appropriate. In order to be considered under the formal complaints process complaints must be submitted in writing, must provide substantiated information, and should outline what form of resolution the complainant is seeking. When a complaint does not meet these criteria and does not reveal a potential breach of the Members' Code of Conduct it is treated as a 'general enquiry'. This means that the Monitoring Officer responds to the complainant in writing explaining why the matters complained of do not constitute a potential breach of the Members' Code of Conduct.		
10.	When a written complaint is submitted which provides the relevant information, the Monitoring Officer will consider and make a decision as to whether it will be treated as a valid complaint or not. Where it is considered valid the Monitoring Officer may deal with the matter under delegated powers unless, after consultation with the Designated Independent Person, it is considered that the breach is potentially serious enough to merit putting before the Standards Sub Committee for determination.		
11.	The complaints submitted about Southampton City Councillors in 2016/7 relate to the following matters:		
	Behaviour alleged	Outcomes & reasons	Source of complaint
	Ongoing complaint	n/a	-
	Numerous linked allegations relating to Council / Cabinet decisions	No evidence or cause of action	Member of the public
	Divulging confidential information	Not proven	SCC employee
	Inappropriate language/wording	Informal resolution/apology	Member of the public
DESIGNATED INDEPENDENT PERSON			
12.	The Designated Independent Person appointed under the Act (David Basson) has been consulted on emerging issues and complaints as appropriate and meets regularly with the Monitoring Officer to talk through issues arising. Training has been provided to him as necessary. Mr Basson will be attending Governance Committee for this item.		

APPLICATIONS FOR DISPENSATION	
13.	If a Member wishes to apply for a dispensation to allow them to take part in a meeting with a disclosable pecuniary interest they must submit a written application to the Monitoring Officer. Applications are then decided by him or by the Governance Committee.
14.	The Localism Act 2011 substantially changed the rules on interests. Regrettably it was incomplete in order to permit members to carry out their full duties in relation to being able to vote on the budget. Annually before Full Council in February 2017 all Members are granted a “standard” dispensation by the Monitoring Officer to allow them to take part in the decision to approve the Council’s budget.
15.	No other dispensations have been applied for.
SUPPORTING MEMBERS OF THE COUNCIL	
16.	Training has previously been provided to newly elected members, and as required for new Cabinet Members and those members who sit on regulatory bodies such as Licensing Committee and the Planning and Rights of Way Panel.
17.	Importantly, the adopted Member Learning and Development Strategy has been implemented and member training via external partners has increased.
GIFTS & HOSPITALITY	
18.	The requirement for members to register any gifts or hospitality received in their capacity as an elected member is currently set at a minimum of £50. Minimal notifications have been made which probably reflects the limited quantity and value of any received. This requirement does, however, exclude anything relevant to elected members who are the Mayor or Sherriff when acting in those capacities.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
19.	None.
<u>Property/Other</u>	
20.	None.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
21.	Chapter 7 Localism Act 2011.
<u>Other Legal Implications:</u>	
22.	None.
RISK MANAGEMENT IMPLICATIONS	
23.	None.
POLICY FRAMEWORK IMPLICATIONS	
24.	None.

KEY DECISION?	No	
WARDS/COMMUNITIES AFFECTED:	None	
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	None	
2.		
Documents In Members' Rooms		
1.	None	
2.		
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (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		
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.		
2.		

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Agenda Item 6

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	ANNUAL GOVERNANCE STATEMENT 2016-17		
DATE OF DECISION:	24 JULY 2017		
REPORT OF:	CHIEF FINANCIAL OFFICER		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	peter.rogers@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 8083 4897
	E-mail:	mel.creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
Not applicable	
BRIEF SUMMARY	
In accordance with the Accounts and Audit Regulations the Council is required to develop and publish an Annual Governance Statement ('AGS'). The AGS reports on the extent to which the Council has complied with its Code of Corporate Governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.	
In accordance with CIPFA Guidance, Audit [Governance] Committees should review and approve the final draft of the AGS prior to the document being presented to the Chief Executive and Leader of the Council for signing.	
RECOMMENDATIONS:	
The Governance Committee is asked to:	
(i)	Review the final draft 2016-17 AGS (Appendix 1)
REASONS FOR REPORT RECOMMENDATIONS	
1.	The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.
2.	This responsibility extends to receiving, reviewing and approving the draft AGS prior to the document being presented to the Chief Executive and Leader of the Council for signing.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	The production of an AGS is a mandatory requirement in accordance with Regulation 6 (1) (b) of the Accounts and Audit (England) Regulations 2015 and therefore no alternative options have been considered.
DETAIL (Including consultation carried out)	
4.	The Committee will recall that, at the previous meeting on 12 th June 2017, Members were invited to comment on an early draft of the AGS. This is in accordance with CIPFA guidance which recommends that "the AGS is first reviewed by members of the Audit [Governance] Committee at an early

	stage to allow comments and contributions to be made. The AGS, which forms part of the Statement of Accounts, must be current at the time that it is published’.
5.	<p>The final draft of the 2016-17 AGS (Appendix 1) includes some minor amendments. A summary of these amendments (as highlighted on the draft AGS) are as follows:</p> <p>The Governance Framework:</p> <ul style="list-style-type: none"> • Section C. Defining outcomes in terms of sustainable economic, social, and environmental benefits <p>The narrative in respect of the Better Care Fund has been slightly amended following comments received from the Director of Quality and Integration.</p> <p>Review of Effectiveness:</p> <ul style="list-style-type: none"> • Addition bullet point added <p>Now includes the Chief Internal Auditor’s Opinion. This reflects a subtle change in the wording of the ‘Code of practice on local authority accounting 2016/17’ in respect of the disclosure requirements for the AGS.</p> <p>Significant Governance Issues:</p> <ul style="list-style-type: none"> • Governance Issue 1 <p>The narrative in the ‘planned action’ section has been updated to make reference to the ‘Induction Plus’ programme for existing staff. A ‘target date’ for the e-learning modules to be on the Learning and Development portal had also been added.</p> <ul style="list-style-type: none"> • Governance Issue 3 <p>The narrative in the ‘planned action’ section has been updated to reflect the current position</p>
6.	Subject to any further comments, the final draft of the AGS will be presented to the Chief Executive and Leader of the Council for signing
7.	As per the process adopted in previous years, and in accordance with good practice, the Governance Committee will be provided with a mid-year update report in respect of the status of the ‘Planned Actions’.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
8.	None
<u>Property/Other</u>	
9.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
10.	The Accounts and Audit (England) Regulations 2015 which require that the Council must each financial year conduct a review of the effectiveness of the system of internal control and prepare an AGS for approval by a committee or members of the authority. The AGS must be approved in advance of the relevant authority approving the statement of accounts.
<u>Other Legal Implications:</u>	
11.	None

RISK MANAGEMENT IMPLICATIONS	
12.	Production of an AGS is a requirement under the Accounts and Audit (England) Regulations 2015 and is therefore required to be complied with. The risk of the AGS not capturing or reflecting significant issues is managed via the 'assurance gathering process' which has been developed in accordance with the new "Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)".
POLICY FRAMEWORK IMPLICATIONS	
13.	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	Not applicable
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Draft AGS 2016-17

Documents In Members' Rooms

1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (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	
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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ANNUAL GOVERNANCE STATEMENT

SCOPE OF RESPONSIBILITY

Southampton City Council (“the Council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the ‘Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016). A copy of the code is on our website at:

http://www.southampton.gov.uk/policies/Code-of-Corporate-Governance_tcm63-364106.pdf

or can be obtained from the:

Service Director – Legal and Governance,
Southampton City Council,
Civic Centre,
Southampton,
SO14 7LY

This statement explains how the council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, Regulation 6(1), which requires all relevant bodies to prepare an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, cultures and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. To demonstrate compliance with the principles of good corporate governance, the 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.

The system of internal control is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council’s policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the council for the year ended 31st March 2017 and up to the date of approval of the statement of accounts.

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THE GOVERNANCE FRAMEWORK

The fundamental function of good governance is to ensure that the Council achieves its intended outcomes while acting in the public interest at all times. The following core, high level, principles characterising good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

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

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose. The Constitution is divided into 15 Articles which set out the basic rules governing the Council's business and includes 'Decision Making' and 'Finance, Contract and Legal Matters' with more detailed procedures and codes of practice provided in separate rules and protocols. These include Access to Information Procedure Rules, Council Procedure Rules and Executive Procedure Rules. The Constitution may be accessed on the internet at:

<http://www.southampton.gov.uk/council-democracy/meetings/council-constitution.aspx>

The Constitution includes both an Officers' Code of Conduct and a Members' Code of Conduct which set out the expected behaviour and standards to be adhered to. In addition, there is a Code of Conduct for Employees, the purpose of which is to ensure that employees understand the standards of conduct and behaviour expected of them in the course of their employment and where this extends into activities and interests outside of work.

The Service Director – Legal and Governance is designated as the Monitoring Officer with responsibility for ensuring compliance with established policies, procedures, laws and regulation, and reporting any actual or potential breaches of the law, or maladministration, to the full Council and/or to the Cabinet.

The Council has in place a 'Whistleblowing Policy' (Duty to Act) which reflects the legal framework and obligation on the Council to enable staff to raise concerns which may involve unlawful conduct, illegality, financial malpractice or dangers to the public, employees or the environment. This procedure sets out the action that individuals should take to report a concern and also the action to take if, in extreme circumstances, a matter is not addressed or if they feel that raising the matter internally could result in evidence of malpractice being concealed.

As part of the commitment to safeguard public funds there is an 'Anti-Fraud and Anti-Corruption Policy Statement and Strategy' which outlines the process to be followed where there is suspicion of financial irregularity. The Strategy applies equally to all organisations with which the Council has joint working relations. The council also has in place an 'Anti-Money Laundering' policy and a 'Bribery Policy' which are also published on the council's website and set out both the expectations and responsibilities of Members, Chief Officers and employees. All such policies and strategies are subject to periodic review.

Complaints are managed via a formal Corporate Complaints policy and procedure in place which is published on the Council's website and set out how a complaint will be dealt with. In accordance with legislation there are a separate procedures in place in respect of Children's Services Complaints and Adult Social Care Complaints. Complaints about Members are dealt with under the Members' Code of Conduct.

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B. Ensuring openness and comprehensive stakeholder engagement

The Council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council's service delivery arrangements and are actively sought.

The Southampton City Council Strategy 2016-2020 ('Council Strategy') reflects feedback from residents, both from the Priorities Survey (2015) and the more recent City Survey 2016. This Council Strategy sets out how the Council will work in order to deliver services in a modern, efficient and sustainable way that meets the needs of our residents. The Council Strategy is subject to periodic review to ensure that it reflects key priorities and outcomes taking into account both internal and external factors.

The Council's website includes a 'Have your say' section which set out how residents and other stakeholders can voice their opinions and shape service delivery. It includes information on:

- Consultation
- E-Petitions
- Comments, compliments and complaints
- Have your say at meetings

In addition, where appropriate, public consultation is used to seek the views of residents and stakeholders. For example the public consultation on budget proposals that helped to shape the final budget report for 2017-18. Information was made available in an easy to understand format and respondents were informed on how their feedback was used. This was then reported to Cabinet before they made their final recommendations to Council.

The 2016 City Survey, which asked residents about their views and opinions on a range of issues facing the city, was commissioned by Southampton Connect and the Police, Council and NHS, and was intended to capture and help understand the views of local residents. This survey is repeated every other year in order to understand trends and evaluate performance.

The Council has established a 'People's Panel' which now has a membership of over 1,100. This Panel comprises a group of residents who take part in various forms of activity including surveys, quick polls, interviews and workshops. Their views are used to inform future decisions and services. Resident's views are also tracked over time over time to see how changes in the city affect their opinions and experience of the city.

Southampton is the first council to develop a 'Citizen Science' project with around 100 members of the People's Panel. 'Citizen Science' is defined as scientific work undertaken by members of the public, often in collaboration with or under the direction of professional scientists and scientific institutions. In this case the participants were supported by the Council's Strategy Unit, as well as academics from the University of Southampton and the University of Manchester. This project involved one of the largest cohorts of participants ever in the UK for a project of this type and focussed on what prevents residents from recycling and what could help them recycle more.

There is a strong focus on youth participation in the city via 'The Youth Forum Southampton' which provides opportunity for young people to influence how services are delivered, highlight issues that need to be reviewed, and to help shape public services for the community. The 'Southampton Speak Up! - Children and Young People's Participation Strategy 2016-2020' explains how young people can get involved to help make Southampton a better place.

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C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Southampton City Council Strategy 2016-2020 ('Council Strategy') is a key strategic document that sets out what the Council wants to achieve, what it will do, how it will work and how it will contribute to the Southampton City Strategy (2015-2025). The Council Strategy sets out the priorities for the next four years, the outcomes that are expected to be achieved by 2020 and the measures used to monitor progress. It influences all other Council strategies and policies developed during this period, as well as the Council's spending decisions. The priority outcomes in the Council Strategy are:

- *Southampton is a city with strong and sustainable economic growth*
- *Children and young people in Southampton get a good start in life*
- *People in Southampton live safe, healthy, independent lives*
- *Southampton is a modern, attractive city where people are proud to live and work*
- *A modern and sustainable council*

Performance against the key indicators is actively monitored with performance reports published each quarter.

The Southampton City Strategy (2015-2025) is a partnership strategy which sets out the vision for the whole city: '*Southampton a city of opportunity where everyone thrives*'. This Strategy has been developed by Southampton Connect which is a strategic partnership in the city that seeks to address the key challenges facing the city in order to improve outcomes for all those who live, work and visit the city. This group, chaired by the Chief Executive of Southampton City Council and including city leaders for health, business, education, police, fire and rescue and the voluntary sector, have come together to agree a 10 year city vision.

At a sub-regional level delivery of key outcomes and priorities is through the Partnership for Urban South Hampshire ("PUSH") and the Solent Local Enterprise Partnership ("Solent LEP"). PUSH is a collaborative partnership working arrangement between the local authorities in the area to support the sustainable economic growth of the sub region. Solent LEP is led by the business community and supported by three university partners, the further education sector, three unitary authorities, eight district councils, one county council and the voluntary and community sector – all working together to secure a more prosperous and sustainable future for the Solent area. PUSH works collaboratively with Solent LEP to deliver its roles and objectives.

In 2016, Southampton City Council, Portsmouth City Council and Isle of Wight Council worked with wider Solent authorities and Solent Local Enterprise Partnership to negotiate a devolution deal with HM Government. Following a public consultation on the governance arrangements for the deal, a submission was made by the three authorities to the Secretary of State in the Autumn of 2016, requesting consideration of proposed arrangements to establish a Solent Mayoral Combined Authority. The outcome of this submission is awaited.

The Council's Medium Term Financial Strategy ('MTFS') is a core part of the Council's strategic framework and plays a pivotal role in translating the Council's strategic plans and ambitions into action. The MTFS focuses on determining the financial position for the next five years and takes into account major issues affecting the Council's finances, including international, national and regional economic influences as well as local factors and priorities.

This forecast forms part of the base assumptions for developing the overall budget, together with unavoidable service pressures agreed by the Cabinet and the Council's Management Team that need to be taken into account in the overall budget deliberations. The Council's Medium Term Financial

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Strategy has been developed in order to secure a forward looking approach and long term sustainability in service provision. The strategy concentrates on the principles that will provide a strong direction for the medium term.

The MTFs recognises the key role that financial resources play in the future delivery of services, and enabling the effective planning, management and delivery of those services. A sustainable MTFs is therefore key to the effective delivery of the Council's overall aims of achieving better outcomes for residents.

Development of the MTFs takes into account a number of other strategies including the Southampton Better Care Plan. The Better Care Plan identifies key areas where closer integration between health and social care will enable system wide efficiencies that benefit both parties **and improve the experience and outcomes for the service users.** The associated Better Care Fund, which commenced in 2015, pools **and aligns** funding for a significant number of services via a formal contract between the Council and Southampton City Clinical Commissioning Group. For the Council these efficiencies are included within the medium term financial forecast. In recognition of the pressures in dealing with adult social care demand, local authorities are able to levy a "social care precept" of up to 2% in council tax which must be spent exclusively on social care, with the potential to bring almost £2bn more into the care system across the country. **Governance across this work is via Cabinet member and senior officer representation on the Commissioning Partnership Board and strategic oversight from the Health and Wellbeing board.**

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

The Council has in place a robust decision making process with all reports are subject to corporate clearance (Legal, Finance and Policy) prior to publication in accordance with the published procedures (which form part of the Council Constitution). All reports follow a standard template which identifies the 'Decision Maker', the decision or action required, why the report is recommended, alternative options considered and rejected together with a details (including consultation carried out) section. The details section includes any pros and cons relevant to the proposal and deals with any supporting information that the decision maker may require in order to make a valid, legal decision.

There are also separate sections detailing any Financial (Resource), Legal, Risk Management and Policy implications. These consider the how proposals will be paid for and from what budget if appropriate, the statutory power to undertake the action and including reference to any legislation that affects the proposals, information on the risks that are being accepted as part of the decision and confirmation that the report proposals are in accordance with the Council's approved Policy Framework.

The Council's Overview and Scrutiny Management Committee ("OSMC") manages the council's overview and scrutiny process which includes scrutinising items on the council's Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme, monitoring performance and budgets, Scrutiny provides the role of the "critical friend" to the decision makers and assists in policy development, drives improvement in public services and enables the voice of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the Council as a whole. The Scrutiny Inquiry Panel carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the Health Overview and Scrutiny Panel undertakes the statutory scrutiny of health and adult social care agencies in Southampton, and the Children and Families Scrutiny Panel scrutinises services for children and families in the city, including education.

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All scrutiny meetings are held in public with opportunity for the public to ask questions or submit questions in writing to the committee or panels. Scrutiny inquiries can consider written evidence and members of the public, community groups, or other key stakeholders can write in to bring evidence to the attention of Inquiry Panel members.

The Council has in place 'Outcome Plans' that are explicitly aligned with the Council's key priorities and outcomes. These plans identify the key challenges associated with the delivery of the respective key priority and outcomes and how they can be addressed. These plans reflect 'How we are performing' (against a base year 2015-2016) and 'How we will perform in 2019-2020' with a suite of key performance measures explicitly aligned with the individual key priority outcomes. Performance against these measures or indicators is subject to regular and robust review by both the Council Management Team and Members.

Each service area within the Council is also required to produce a business plan on an annual basis that includes what and how services are to be delivered, the cost drivers, future challenges, opportunities and risks and how they will be addressed. The plans detail the budget envelope and projected costs for the service over a three year period.

Budget pressures arising from services are identified through regular monitoring of budgets and work plan with action plans to address any significant in year budget variances are agreed with the Council Management Team and subject to monthly progress / status reporting.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within in

The Council has in place a 'Workforce Strategy and Action Plan' that was approved by Full Council in September 2016. The Workforce Strategy covers pay and reward, recruitment, retention, performance management, training and development of the workforce. It provides direction for all staff with the learning and development elements also covering all elected Members

The Workforce Strategy covers the period 2016 - 2021 and is aligned with other key strategies - Southampton City Council Strategy, the Customer Strategy and the Medium Term Financial Strategy. The 'Workforce Strategy' is intended to enable the Council to respond to short and medium term issues relating to organisational development and human resources in a rapidly changing world and taking into account national legislation and local demands. The Workforce Strategy and integral workstreams aim to close the gap between the Council's aspirations and its capacity to deliver by having clear priorities, policies and strong leadership throughout the organisation. The Workforce Strategy takes account of challenges in relation to the overall Council budget and is used to guide resource allocation decisions, drive positive change and deliver a return on investment.

The vision is for the Council to be an employer of choice and be recognised as a 'Great Place to Work' where employees have pride in their work, the Council and the city. It is intended that this is delivered through:

- A skilled, agile, flexible and engaged workforce of high performing, professional teams guided in their work by our core behaviours and delivering the right services effectively and efficiently for a sustainable Council
- The Council recognising, developing and rewarding talent, proactively promoting learning and growth across all areas.

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F. Managing risk and performance through robust internal control and strong public financial management

The Council has in place a 'Risk Management Policy 2017-2020' that sets out the framework, arrangements and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities, are identified and managed. The Policy is intended to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility recognising that all employees, members and those who act on behalf of the council have a role to play in the effective management of risk. It is also relevant to Members in their capacity as 'decision makers'.

The Policy is subject to annual review to ensure that it continues to reflect good practice and remains aligned with current business processes and practices. Any significant changes reported to the Council's Governance Committee which has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment and the integrity of the financial reporting and annual governance statement process. The Governance Committee undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance.

Performance against the key indicators in the Council Strategy are published on the council website for each quarterly period. Performance is actively monitored and reported to both the Council's Management Team, Strategy Unit and the Overview and Scrutiny Management Committee. In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. The council is committed to achieving best value from its suppliers and ensuring that goods and services are procured in the most efficient and effective way. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose. In addition, all significant commercial partnership working arrangements have a range of key performance indicators which are used to verify and manage service performance. These outsourced contracts are managed by a Supplier Management Team which provides a senior management interface between the Council and our partnership service providers.

The Council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government (2016)'. The CFO is professionally qualified and is a member of the Council Management Team and has direct access to the Chief Executive. The CFO is actively involved in ensuring that strategic objectives are aligned to the longer-term finance strategy. The CFO has input into all major decisions, advises the Executive on financial matters and is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust and that the finance function is fit for purpose.

The Council's assurance arrangements also conform to the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit in public service organisations (2010)'. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment, including the arrangements for achieving value for money. The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Governance Committee).

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G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

The Council is committed to openness and transparency and publishing as much Council data as it can in order to increase accountability. The Council has established a 'Council Data' web page that enables the public to access the data published under the requirements of the Local Government Transparency Code (2015). This Code sets out the specific data required to be published, and the timescales by which the data must be published. All data required to be published by the Local Government Transparency Code is published.

The 'Council Data' web page includes a link to the Council's budget book which provides a comprehensive summary of the Council's 2016/17 Revenue Budget and details the assumptions made and risks considered in setting the budget. It also provides summary information of the Council's Medium Term Financial Position and a link to the Statement of Accounts which shows how public money has been used and that the Council has been honest and responsible. The Statement of Accounts are prepared in accordance with the Accounting Code of Practice.

The Council's Constitution sets out how decisions are made and makes specific reference to decision making by Full Council, by the Executive (Cabinet), by Overview and Scrutiny Committees, other committees and sub-committees established by the Council and by Council bodies acting as tribunals.

The Council produces a Forward Plan of all Key Decisions which are proposed to be taken within the next four months (updated monthly 28 clear days prior to scheduled Cabinet meetings on a rolling basis). Other decisions are also included where practicable to assist in providing public transparency and confidence in decision making. All agendas and minutes of meetings in respect of Council, Cabinet, Overview and Scrutiny, Non-Executive Committees and statutory boards and published on the Council's website.

The Constitution includes an Officer Scheme of Delegation which sets out the powers and functions that are delegated to named Council Officers. The compilation of a Register of Delegated Powers is a statutory requirement and is maintained by the Service Director: Legal & Governance. In addition, 'Decision Making - Corporate Standards and Guidance for Officers' is published on the internet and sets out the decision-making process, highlighting those aspects of decision making that are compulsory and must be complied with in all respects.

REVIEW OF EFFECTIVENESS

The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is led by a 'Controls Assurance Management Group' comprising the Service Director – Strategic Finance & Commercialisation (Section 151 Officer), Chair of the Governance Committee, Chief Strategy Officer, Service Director – Legal & Governance (Monitoring Officer) and Chief Internal Auditor.

The review process, applied in respect of maintaining and reviewing the effectiveness of the system of internal control, is informed by:-

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which include executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified. In addition, where appropriate, the

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relevant Service Director being required to attend a meeting to update the Committee regarding progress and actions;

- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report – ISA260;
- The Chief Internal Auditors ‘Annual Report and Opinion’ on the adequacy and effectiveness of the Council’s internal control environment;
- For 2016-17 the Chief Internal Auditor’s opinion was that “I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Southampton City Council’s internal control environment. In my opinion, Southampton City Council’s framework of governance, risk management and management control is ‘Adequate’ and audit testing has demonstrated controls to be working in practice. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.”
- The Internal Audit Charter and delivery of the annual operational plan;
- The work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment;
- The completion of an annual ‘Self-Assessment Statement’ by Service Directors which cover the key processes and systems that comprise the council’s governance arrangements and is intended to identify any areas where improvement or further development is required;
- Completion of an ‘Assurance Framework’ document which reflects the key components of the Council’s overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The Risk Management Policy and specifically the Strategic Risk Register;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

1.	Governance Issue (CARRIED FORWARD FROM 2015-16)
	The general level of staff awareness of the existence and content of the ‘Whistleblowing Duty to Act’ policy, ‘Anti-Fraud and Corruption Strategy’ and ‘Anti Money Laundering Policy’ and associated responsibilities is inconsistent.
	Planned Action: A new Induction programme is being delivered to all new entrants to SCC and an

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	<p>Induction Plus programme for existing staff – this includes bespoke modules for Finance and financial regulations and Legal and Democratic Services – working with the subject matter experts for content and delivery. Specific e-learning to support the policies will be added to the L and D portal during 2017.</p> <p>Responsible Officer: Service Director: Human Resources & Organisational Development</p> <p>Target for completion: Induction in place. E-learning modules on portal by end 2017.</p>
<p>2. Governance Issue</p>	<p>The Council's Code of Corporate Governance needs to be reviewed and updated in order that it is aligned with the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.</p> <p>Completed Action: The Code of Corporate Governance has been reviewed and updated to reflect current best practice. It was presented to and approved by the Council's Governance Committee on 24th April 2017</p> <p>Responsible Officer: Service Director - Legal and Governance</p>
<p>3. Governance Issue</p>	<p>Information Governance - Not all staff have completed the Data Protection and Freedom of Information training which is mandatory for all Council employees at induction and annually thereafter. The training made is available via e-learning together with alternative options available for those staff unable to access a computer as part of their day to day work.</p> <p>Planned Action: This is an ongoing concern. It was raised as part of the annual 'Information Governance' report at Council Management Team and actions agreed including, as a last resort, suspension of individual IT user accounts and disciplinary action.</p> <p>Equally, confidence in the core supporting data produced by HR Pay is lacking given accuracy issues. This core element must be wholly accurate before starting any disciplinary action. Part of the issue is the interface between Resourcelink and the other databases involved. This aspect is being investigated urgently by the Service Director: Human Resources & Organisational Development.</p> <p>Responsible Officer: Service Director - Legal and Governance</p> <p>Target for completion: September 2017</p>
<p>4. Governance Issue</p>	<p>Performance Management - Not all staff have had an annual performance appraisal. The performance appraisal process is intended to allow for priorities and objectives for the forthcoming period to be determined and agreed which, in turn, should reflect the Service / Council's key outcomes and priorities.</p> <p>Planned Action: A new Performance Management Framework has been approved and is in the process of being implemented. This new Framework is intended to ensure all staff are working to deliver the Council Strategy and other key strategies which are then translated into outcome plans, service based business plans and individual and/or team objectives. This will be delivered throughout 2017/18 taking into account the implementation of Phase 3 restructures.</p>

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	<p>For all staff, this will be through:</p> <ul style="list-style-type: none">• A Performance Contract for each role (linked to the job description)• Annual and quarterly targets, considered at Annual Performance Review meetings and Quarterly Performance Review meetings• Personal Development Plans• Team meetings• Individual supervision / one to one meetings
	<p>Responsible Officer: Service Director – Human Resources and Organisational Development</p> <p>Target for completion: March 2018</p>
5.	Governance Issue
	<p>There is need for more a formal, robust and consistent approach to succession planning, for key posts and/or a spread of skills to avoid over reliance on any particular individual.</p>
	<p>Planned Action: Delivery of a workforce strategy and action plan is addressing the issues that are highlighted as part of the Phase 3 restructures.</p>
	<p>Responsible Officer: Service Director – Human Resources and Organisational Development</p> <p>Target for completion: March 2018</p>

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

Signed

.....
Dawn Baxendale
(Chief Executive)
On behalf of Southampton City Council

.....
Councillor Simon Letts
(Leader of the Council)

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Agenda Item 7

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	FINANCIAL STATEMENTS 2016-17		
DATE OF DECISION:	24 JULY 2017		
REPORT OF:	SECTION 151 OFFICER		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Sue Cuerden	Tel: 023 80 834153
	E-mail:	Susan.cuerden@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80 834897
	E-mail:	Mel.creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	
BRIEF SUMMARY	
<p>In accordance with the Accounts and Audit Regulations 2015 the Financial Statement 2016/17 were signed by the Section 151 (S151) Officer on 22 May 2017 which is earlier than the statutory requirement to have the statements signed by 30 June. A copy of the latest Financial Statements is available in the Members Room.</p>	
<p>The Annual Audit, carried out by our auditors Ernst & Young, commenced on 5 June 2017 and is due to be completed 14 July 2017. This report details the findings, to date, noted in the draft annual report of any major changes to the Financial Statements arising from the annual audit. Any further changes, identified on submission of the final audit report, which is expected prior to this meeting, will be presented at this meeting.</p>	
RECOMMENDATIONS:	
(i)	Notes the changes to the Financial Statements 2016/17 as a result of the annual audit as detailed in paragraphs 6 to 9 and appendix 1.
(ii)	Approves the audited Financial Statements 2016/17.
REASONS FOR REPORT RECOMMENDATIONS	
1.	It is a legal requirement that the Statement of Accounts 2016/17 be approved and signed by the person presiding at this meeting, subject to any residual changes required following the completion of the Audit, by 30 September 2017.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	The Financial Statements have been prepared in accordance with statutory accounting principles. No other options have been considered as it is a legal requirement that the Financial Statements are prepared and signed by the person presiding at this meeting no later than 30 th September 2017.

DETAIL (Including consultation carried out)	
	CONSULTATION
3.	Not applicable.
	FINANCIAL STATEMENTS
4.	<p>The Financial Statements are a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of Committee were presented at its meeting on 12 June 2017. A copy of this is available in the Members Room or by following the link below.</p> <p>Governance Committee 12 June 2017</p>
	FINANCIAL STATEMENTS AMENDMENTS
5.	The Financial Statements for 2016/17 have been completed earlier than required this year in recognition that for the financial year 2017/18 it will be a legal requirement to have the accounts certified by 31 May 2018. The draft annual report includes a number of adjustments, none of which change the overall bottom line position for the Council for 2016/17.
6.	There were a number of minor numerical and typographical errors, some presentational, and additional disclosure adjustments to the Draft Financial Statements signed by the S151 Officer on 22 May 2017.
7.	<p>The latest Draft Financial Statements, along with full details of any changes made, are available in the Members Room. The Main adjustments to the statements:</p> <ul style="list-style-type: none"> • Senior Officers' remuneration disclosure to include LGPS payments of approximately £255k in respect of costs of early retirement for the Chief Operations Officer; • Council Dwellings £939k revaluation adjustment which impacted on a number of statements and Notes including the, Expenditure Funding Statement, Comprehensive Income and Expenditure Statement (CIES), HRA Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement, Cash Flow Statement and related Notes; • Additional disclosures with regard to Interest in Companies; • Additional Accounting Policy disclosure with respect to Community Infrastructure Levy; • Future minimum lease payments receivable reduced by approximately £7.6M to £517.0M; and • Financial Instruments fair value of Transferred Debt amended to £16.6M from £14.9M, with a restatement of the prior year's figure to £17.6M from £15.3M.
8.	The remaining adjustments to the statements and notes are detailed in Appendix 1.

RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
9.	The capital and revenue implications were considered as part of the General Fund Capital Outturn report and the General Fund Revenue outturn report that were presented to Council on 19 July 2017.
<u>Property/Other</u>	
10.	There are no specific property implications arising from this report
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
11.	Accounts and Audit Regulations 2015.
<u>Other Legal Implications:</u>	
12.	None.
RISK MANAGEMENT IMPLICATIONS	
13.	Not applicable
POLICY FRAMEWORK IMPLICATIONS	
14.	Not applicable. It should be note that the Financial Statements are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK.

KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Revisions made to the Statement of Accounts 2016/17
2.	
Documents In Members' Rooms	
1.	Latest amended Financial Statements 2016/17
2.	Governance Committee Report 12 June 2017 – Financial Statements 2016/17.

Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		Yes/No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		Yes/No
Other Background Documents		
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.		
2.		

Revisions made to Statement of Accounts

	Page	New Note /Paragraph	Detail									
1	32	1 j)	<p>Note 1j) Government Grants and Other Contributions - Additional Paragraph Community Infrastructure Levy (CIL) The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.</p> <p>CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure.</p>									
2	69	23 a)	<p>Note 23 a) Reconciliation of Net Surplus or (Deficit) on the Provision of Services to Net Cash Flows from Operating Activities</p> <p>Depreciation and Impairment figures misanalysed amended as below:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Depreciation</td> <td style="text-align: right;">£40,959k</td> <td style="text-align: right;">(from £20,953k)</td> </tr> <tr> <td>Movement on assets charged to Revenue</td> <td style="text-align: right;">(£39,595k)</td> <td style="text-align: right;">(from (£19,588k))</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">0</td> <td style="text-align: right;">(from (£1k))</td> </tr> </table> <p>No net impact on overall balance of £10,216k per note</p>	Depreciation	£40,959k	(from £20,953k)	Movement on assets charged to Revenue	(£39,595k)	(from (£19,588k))	Other	0	(from (£1k))
Depreciation	£40,959k	(from £20,953k)										
Movement on assets charged to Revenue	(£39,595k)	(from (£19,588k))										
Other	0	(from (£1k))										
3	87	39	<p>Note 39 Pooled Budgets</p> <p>Heading Residual amended to Residential</p>									
	93	HRA Note 7	<p>HRA Note 7 Property, Plant & Equipment Council Dwellings overstated by £939k when compared to the Valuation Schedules NBV should be £640,008k not £640,947k</p> <p>Revaluation Adjustment required £20,232k reduced by £939k to £19,293k</p> <p>corresponding adjustment to subtotals and total within table</p>									
	89	HRA CIES	<p>HRA Comprehensive Income and Expenditure Statement (Revaluation)/ Impairments of non current assets (£40,302k) should be (£39,363k)</p> <p>£939k revaluation adjustment above</p> <p>(Above total also includes the Depreciation Reversal £19,832k and other L&B Revaluation £238k adjustments)</p> <p>Corresponding adjustment to subtotals and totals with HRA</p>									
	90	Note to SMHRA	<p>Note to Statement of Movement on the HRA Balance</p> <p>Impairment and Revaluation of Non Current Assets £40,302k should be £39,363k</p> <p>£939k revaluation adjustment as above</p> <p>Corresponding adjustment to subtotals and totals with SMHRA</p>									
	51	12	<p>Note 12 Property, Plant and Equipment (As per HRA Note7 above)</p> <p>Council Dwellings overstated by £939k when compared to the Valuation Schedules NBV should be £640,008k not £640,947k</p> <p>Revaluation Adjustment required £20,232k reduced by £939k to £19,293k</p> <p>Corresponding adjustment to subtotals and totals</p>									
	20	CIES	<p>Comprehensive Income and Expenditure Statement (As per HRA CIES above)</p> <p>Local Authority Housing Impairment loss/(gain) on dwellings (£40,302k) should be (£39,363k)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Cost of Services Expenditure Total</td> <td style="text-align: right;">£591,117k</td> <td style="text-align: right;">from £590,234k</td> </tr> <tr> <td>Cost of Services Net Total</td> <td style="text-align: right;">£138,141k</td> <td style="text-align: right;">from £137,202k</td> </tr> <tr> <td>Deficit / (Surplus on the Provision of Services</td> <td style="text-align: right;">(£47,634k)</td> <td style="text-align: right;">from £48,473k</td> </tr> </table>	Cost of Services Expenditure Total	£591,117k	from £590,234k	Cost of Services Net Total	£138,141k	from £137,202k	Deficit / (Surplus on the Provision of Services	(£47,634k)	from £48,473k
Cost of Services Expenditure Total	£591,117k	from £590,234k										
Cost of Services Net Total	£138,141k	from £137,202k										
Deficit / (Surplus on the Provision of Services	(£47,634k)	from £48,473k										

	Page	New Note /Paragraph	Detail
4	19	EFA	Expenditure and Funding Analysis Local Authority Housing Impairment loss/(gain) on dwellings (£40,302k) should be (£39,363k) Corresponding adjustments to subtotals and totals
	21	MIRS	Movement in Reserves Statement 2016/17 Table HRA - Surplus on provision of Service (£60,109k) from (£61,048k) HRA - Adjustments between accounting and funding basis £50,109k from £60,048k
	22	Balance Sheet	Balance Sheet Property, Plant & Equipment £1,331,438k from £1,332,377k Capital Adjustment Account (£826,932k) from (£827,871k) Net Balance Sheet £872,285k from £873,224k
	23	Cash Flow	Cash Flow Net Surplus or (deficit) £47,634k £48,573k Non cash Adjustments to surplus deficit £11,155k £10,216k
	44	8 a)	8 a) Notes to the Expenditure and Funding Analysis Local Authority Housing Impairment loss/(gain) on dwellings (£40,302k) should be (£39,363k) Corresponding adjustments to subtotals and totals
	46	8 c)	8 c) Expenditure by Nature Cost of Services Depn Amort impairment Local Authority Housing (£20,469k) from (£21,408k) Corresponding adjustments to subtotals and totals
	48	10	Note 10 Adjustments between accounting basis and funding basis HRA Column Surplus/ deficit on provision of services £60,109k from £61,048k Depreciation and impairment of non current assets £39,363k from £40,302k Subtotal £59,109k form £60,048k
	51	12 d)	Note 10 Property Plant and Equipment (PPE) d) Fair Value Council Dwelling Revaluation etc £19,293k from £20,232k Corresponding Adjustment to subtotals and totals (as per HRA Note)
	67	22 b)	Note 22 Unuseable Reserves b) Capital Adjustment Account Depreciation & Movement on Assets charged to Revenue £2,303k from £1364k Balance Carried Forward £826,932k from £827,871k
	69	23 a)	Note 23a) Notes to the Cash Flow Statement Net Surplus of (Deficit) on the Provision of Services £47,634k from £48,573k Movement of Assets charged to Revenue (£38,566k) from (£39,595k) Subtotal £11,155k from £10,216k See also Adjustment 2 above

	Page	New Note /Paragraph	Detail		
	94	HRA Note 11	HRA Note 11 Item 8 Credit and Debit (General) Determination		
			Impairments and Revaluation of Fixed Assets £39,265 (from 40,204k)		
			Impairments and Revaluation of Fixed Assets (£39,265k) (from £40,204k)		
			Corresponding Adjustments to subtotals		
5	76	31	Note 31 Leases		
			a) Council as a lessor		
			Not later than a Year £6,919k (from £7,667k)		
			Later than one and less than five years £21,107k (from £23,541k)		
			Later than five year £489,009k (from £493,426k)		
			Total £517,035k (from £524,634k)		
			Adjustment required as working paper used the 31/03/2016 instead of 31/03/2017		
			No I&E Impact		
6	22	Balance Sheet	Balance Sheet		
			Split between short and long term provision restated (picking up 2 to 5 years not within1) short term was £6,327k now £7,187k and long term from £7,479k to £6,619k no change to overall figure of £13,806		
			Corresponding Changes to subtotals		
7	87	38	Note 38 Non-Domestic Rates Retention		
			SCC Share of (Surplus)/ Deficit (previously Surplus / (Deficit))		
			Brackets incorrectly shown on Deficit		
8	58	17 d) 17 h	Note 17 d) Financial Instruments - Fair Values & Note 17 h)		
			Transferred Debt liabilities FV figures changed for 15/16 to (£17,607k) from (£15,281k) and for 16/17 to (£16,601k) from (£14,917k)		
			As a result of above Market value figure in note 17h amended from £40.372m to £42.685M		
			Error in formula picking up the wrong value		
9	64	20	Note 20 Creditors		
			Finance Creditor (PFI and Hampshire Waste Contract) £1,841k (£2,641k)		
			Sundry Creditors £15,580k (£14,780k)		
			Adjustment for Short term element incorrect		
10	92	HRA Note 1	HRA Note 1 Council House Rents		
			Rent met by Tenants £33,373k (from £31,723k)		
			Rent Rebates £39,124k (from £40,774k)		
			Total £72,497k <u>£72,497k</u>		
			Original Split incorrect		
11	48	10	Note 10 Adjustments Between Accounting Basis and Funding Basis Under Regulations		
			HRA Column	Total useable	Total Unusable
			Depreciation (and similar amounts) and impairment of non-current assets	£20,469k (was 39,363k) (See 4 above)	(£2,303k) (was £16,591k)
					£2,303k (was (£16,591k))
			Financing of HRA Assets (Major Repairs Reserve)	- (was (£18,894k))	£18,894k (was nil)
					(£18,894k) (was nil)
			Adjustments made to correctly reflect the movements		
12	66	22 a)	Note 22 Unuseable Reserves a) Revaluation Reserve		
			Surplus or deficit on Revaluation of non-current assets not posted to the Surplus	2015/16	2016/17
			Deficit on the Provision of Services	(£50,685k) (was (£348,223k))	£218k (was (£344,054k))
			Totals incorrectly included balances brought forward		

	Page	New Note /Paragraph	Detail						
13	67	22 b)	<p>Note 22 Unuseable Reserves b) Capital Adjustment Account</p> <p>HRA Depreciation (formerly Major Repairs Allowance) amended to HRA Financing from the Major Repairs Reserve Depreciation (and similar amounts) and Movements on Assets charged to Revenue</p> <p>Amendments to wording to correctly reflect the movements</p>						
14	90	Note to SMHRA	<p>Note to Statement of Movement on the HRA Balance</p> <p>Transfer to Major Repairs Reserve £18,894k</p> <p>moved sections from "items in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year" to "Items not included in the HRA Income and Expenditure Account but included in the movement on the HRA Balance for the year"</p> <p>Financing of HRA Non Current Assets (Major Repairs Reserves) - amended to "Amount equal to HRA Depreciation transferred from the CAA"</p>						
15	84	36	<p>Note 36 Interest in Companies</p> <p>Capita Southampton Lts (CSL) A review of CSL indicates an associate, which would require the company to be accounted for in group accounts using the equity method, i.e. showing an investment at the initial cost of the investment, plus increases due to year-end share in the net assets of the company. There are no net assets associated with this company and the initial investment was £20.</p> <p>PSP Southampton LLP A review of PSP indicates a joint venture, which requires to be accounted as for an associate, the initial investment £1, and the share of the net assets of the company at 30 April 2017 was approximately £700k.</p> <p>Having given due consideration to the qualitative and quantitative aspects of materiality, SCC conclude that the preparation of group accounts is not material to the "true and fair view" of the financial position, financial performance and the cash flows of the authority and to the understanding of the users.</p> <p>Additional disclosure to fulfil the requirements of the code</p>						
16	75	29	<p>Note 29 Related Parties</p> <p>Hampshire Police Authority precept of £9.7M (was £9.2M) Hampshire Fire & Rescue Authority precept of £3.8M (was £3.6M)</p> <p>Amounts not updated for 2016/17</p>						
17	98	Collection Fund Note 8	<p>Collection Fund Note 8 Collection Fund Balance</p> <p>The £0.6M has been debited to..... (Was £0.06M deficit has been debited.....)</p> <p>Amount amended and the word deficit removed as not a deficit, but a statutory adjustment</p>						
18	74	27	<p>Note 27 External Audit Costs</p> <p>Other Services amended to "Fees payable to Fiander Tovell in respect of grant claims and returns for the year"</p>						
19	81-82	34 c) 34 d) 34 g)	<p>Note 34 Defined Benefit Pension Schemes</p> <p>Note 34 c) The total liability of £425.0M (2015/16 - £366.8M) - was £366.8M (2014/15 - £390.7M) - not updated for 2016/17</p> <p>Note 34 d) The latest actuarial valuation of liabilities took place at 31 March 2016 (was 2013 - not updated)</p> <p>Note 34d) Actuarial (Gains)/ Losses..... - Amended from Actuarial Gains/ (Losses) - brackets round the wrong word</p> <p>Note 34 g) Actuarial (Gains)/ Losses..... - Amended from Actuarial Gains/ (Losses) - brackets round the wrong word</p> <p>Note 34g)is a Loss of £259.5M - Amended from £282.1M - incorrectly updated</p>						
20	72	26 a)	<p>Note 26 a) Senior Officers' Remuneration</p> <table border="0"> <thead> <tr> <th></th> <th>Pensions</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Chief Operations Officer until 31/12/2016</td> <td>£268,092</td> <td>(was £12,971) £399,995 (was £144,834)</td> </tr> </tbody> </table> <p>(Corresponding adjustments to table totals)</p> <p>Pensions Contributions note amended to included £255,121 LGPS contributions in respect of early retirement costs</p>		Pensions	Total	Chief Operations Officer until 31/12/2016	£268,092	(was £12,971) £399,995 (was £144,834)
	Pensions	Total							
Chief Operations Officer until 31/12/2016	£268,092	(was £12,971) £399,995 (was £144,834)							

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	INTERNAL AUDIT PROGRESS REPORT 2017-18		
DATE OF DECISION:	24 JULY 2017		
REPORT OF:	CHIEF INTERNAL AUDITOR		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Elizabeth Goodwin	Tel: 023 80834616
	E-mail:	Elizabeth.Goodwin@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 80834897
	E-mail:	Mel.Creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
N/A	
BRIEF SUMMARY	
<p>The Public Sector Internal Audit Standards 2017 (PSIAS), requires the Chief Internal Auditor (CIA) to provide periodical updates to the Governance Committee on:</p> <ul style="list-style-type: none"> • Progress made against the agreed annual audit plan. • Results of audit activities and • Management's response to risk that in the CIA's judgement maybe unacceptable to the Authority <p>All other PSIAS requirements are communicated in either the charter, strategy or annual audit opinion, which are reported separately to this committee at various times throughout the year.</p> <p>Internal Audit Progress for the period 1st April 2017 to 10th July 2017 is covered in the attached Appendix 1.</p>	
RECOMMENDATIONS:	
	(i) That the Governance Committee notes the Internal Audit Progress report for the period 1 st April 2017 to 10 th July 2017.
REASONS FOR REPORT RECOMMENDATIONS	
1.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an update on progress against the annual audit plan to the Governance Committee for information.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
	None
DETAIL (Including consultation carried out)	
	None
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
	None

<u>Property/Other</u>	
	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
<u>Other Legal Implications:</u>	
	None
POLICY FRAMEWORK IMPLICATIONS	
	None
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Internal Audit Progress Report for the period 1 st April 2017 to 10 th July 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)



Internal Audit Progress Report

24th July 2017 Governance Committee

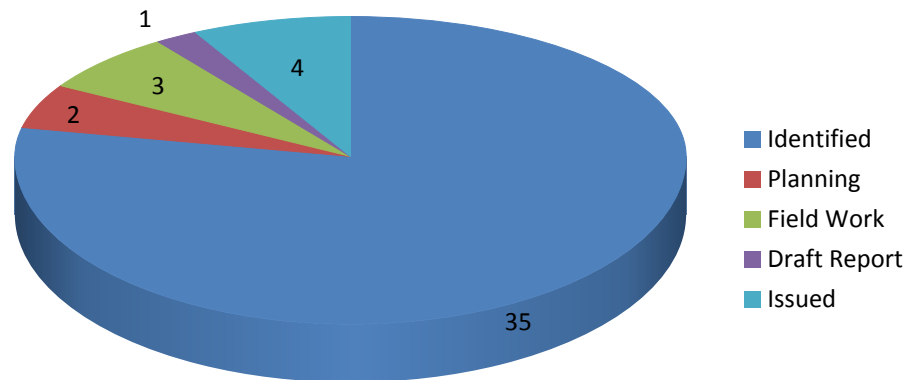
Elizabeth Goodwin - Chief Internal Auditor

Introduction: The internal audit function is a statutory function for all Local Authorities. Southampton City Council shares the Chief Internal Auditor with Portsmouth City Council. The audit service is provided in partnership with Portsmouth City Council and an in house team at Southampton City Council. SCC is currently in the process of recruiting the in house team. An Audit Manager has been appointed and is due to start in August 2017. The 2 remaining posts are still in the recruitment process.

Purpose of report: The purpose of this report is to update the committee on the progress of the 2017/18 Audit Plan for the period 1st April 2017 to 10th July 2017 and highlight any areas of concern that may have arisen during the completed audits. In addition, changes to the audit plan and other unplanned pieces of work are also brought to the attention of the committee.

Audit Plan Progress:

Audit Plan Update to 10th July 2017



11% of the Audit Plan has been completed as at 10th July 2017. 11% of the Audit Plan is in progress. The remaining 78% has yet to commence.

Completed Audits:

Project Name	Group	Opinion	Direction	No. Critical Risk	No. High Risk	No. Medium Risk	No. Low Risk	Summary
F&C - NNDR	Strategy	Assurance					1 (Eoo)	1 Low risk exception was raised relating to the lack of recording for the reasons of individual write offs and therefore no root cause analysis could be undertaken by management.
F&C - Council Tax	Strategy	Reasonable Assurance			1 (CMP)		1 (Eoo)	1 High Risk exception was raised relating to the incorrect award of Student exemptions or disregards for 16% tested (£5,936), i.e. where a discount had remained in place for a period of time and where the software systems had failed to highlight them or where the evidence provided to support the discount was insufficient. 1 Low risk exception was raised relating to the lack of recording for the reasons of individual write offs and therefore no root cause analysis could be undertaken by management.
F&C - PUSH	Strategy	Assurance					1 (R&I)	1 Low risk exception was raised relating to inconsistency in the PUSH statement regarding the method used for interest calculation.
C&F - School Financial Value Standard (SFVS)	Operations	Reasonable Assurance				2 (CMP & R&I)		2 Medium risk exceptions were raised, one relating to the fact that two schools had failed to submit their SFVS returns. The second relating to the fact that 11% of responses submitted could not be verified.

(Testing under the following areas: CMP=Compliance with laws, regulations, policies & procedures, Eoo=Effectiveness of Operations, R&I=Reliability and Integrity of data)

Audits in Draft Report Stage:

Project Name	Group	Project Status	Projected Reporting Date
L&G - Annual Governance Statement	Strategy	Draft Report	September 2017

Audits in progress:

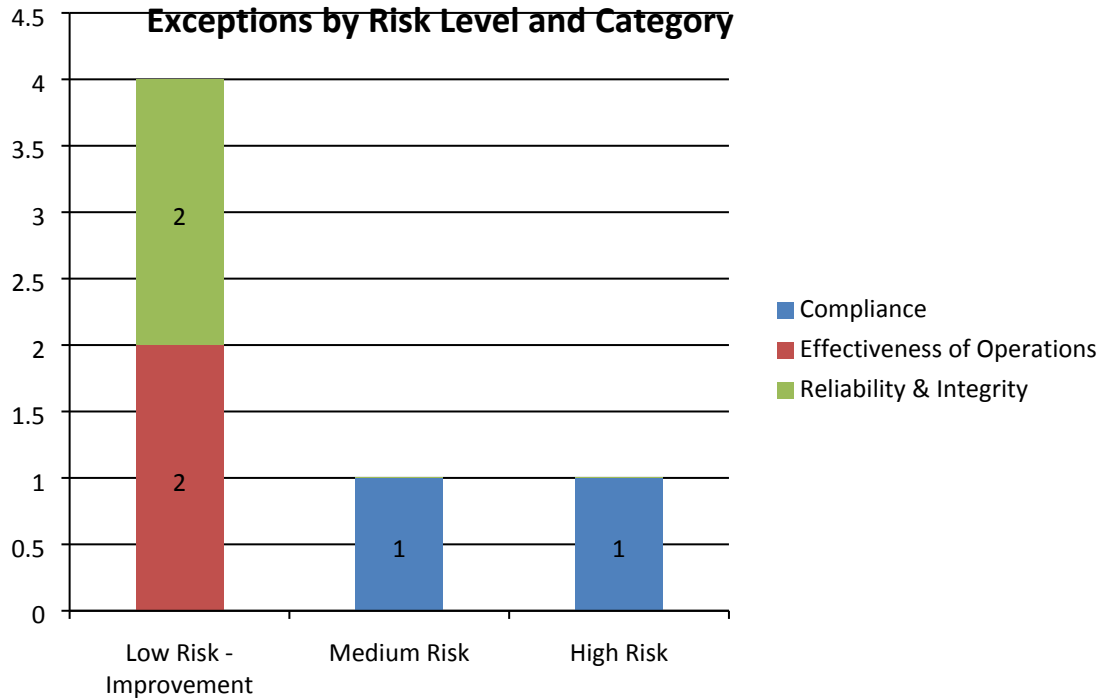
Project Name	Group	Project Status	Projected Reporting Date
F&C - Housing Benefit	Strategy	Field Work	September 2017
F&C - Payroll	Strategy	Field Work	September 2017
F&C - Treasury Management	Strategy	Field Work	September 2017
C&F - Family Matters Grant	Operations	Planning	September 2017
GRTH - Studio 144	Operations	Planning	September 2017

Unplanned Work:

Since 1st April 2017 to 10th July 2017, Internal Audit have provided advice in the following area. (For reference, Advice is only recorded when the time taken to provide the advice exceeds 1 hour).

- SeaCity Museum - Following the fire and subsequent theft that occurred, Internal Audit were contacted to review the processes in place relating to cash security and evacuation. Upon review of the processes for storing and securing cash, Internal Audit did not highlight any issues which required addressing. Cash is secured during the day and access to the till system is restricted. Evacuation processes were followed and the theft occurred based on the actions of the perpetrator, not the failure of processes.

Exceptions Raised in Issued Audits 2017/18



Category	Example
Achievement of Organisational Objectives (AOO)	Policy is out of date and not in line with current process
Compliance with Laws, Regulation and Policy (CMP)	Authority process /action is breaching legislation
Safeguarding of Assets (SOA)	Inventory of assets is not being maintained
Effectiveness of Operations (EOO)	Duplicate authorisation within a process
Reliability and Integrity of Data (R&I)	Reports used for decision making are inaccurate

The above table shows the number of exceptions raised based on the risk level and the category in which they were tested. As we are so early into the current year, the graph does not have sufficient data to highlight and trends or issues in a given category.

Audit Plan Status/Changes:

The 2017/18 Audit Plan currently contains 45 separate audits. This is an increase of 5 since the Audit Plan was approved by the Committee in April 2017. As previously agreed, a full revision to the audit plan will be presented in September 2017 along with an Internal Audit Strategy. The audits that have been added since April 2017 are:

Projects Added	
A)	C&F - School Financial Value Standards (SFVS)
B)	C&F - Family Matters Grant
C)	HAC - Direct Payments
D)	T&U - TranMan
E)	GRTH - Studio 144

- A) The SFVS audit has been added as an annual submission is required by SCC to the Department of Education, regarding the Schools annual self-assessments on financial matters. (This relates to maintained schools only) Whilst the returns are submitted to finance an independent verification of the submission is required to ensure that the declarations made can be evidenced as accurate.
- B) The Family Matters Grant audit has been added as independent claims verification is required for each grant submission. All proposed claims will be verified and reported individually.
- C) Direct Payments has been added to the plan due to the Limited Assurance audit opinion issued by the previous audit team and following discussions held with the Service Director for Adult & Housing. Internal Audit will act in a consultative capacity during the system redesign stage before carrying out a full audit at the end of the financial year.
- D) TranMan (the fleet management database used at the City Depot) has been added as an audit following discussion with the Service Director for Transactions & Universal and the Service Lead for Waste, Fleet and Street Cleansing over their concerns relating to the

internal control systems and following an initial overview of the database. The audit will review the processes and administration accesses of the database.

- E) Studio 144 has been added at the request of the s151 Officer and Service Director for Finance & Commercialisation. This project has been delayed and is currently over budget. Therefore an audit will be conducted on the processes and governance arrangements.

In addition to the above and at the request of the Chief Operating Officer the previously titled audit of 'Fire Risk Assessments' has been amended to 'Tower Blocks' as the audit will now only focus on the high rise flats owned by the Council. The review will incorporate reviewing compliance with the Fire Policy and other legislative requirements such as gas and electricity checks. The emergency procedures in place for the Tower Blocks will also be reviewed in relation to their accuracy of current practice and recording of incidents. The technical elements regarding evacuation are not within the remit of Internal Audit.

KEY:

Overall Assurance Levels:	Description / Examples
Assurance	No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority
Reasonable Assurance	Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority
Limited Assurance	Control weaknesses or risks were identified which pose a more significant risk to the Authority
No Assurance	Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit

Exception Priority Level	Description
Low Risk - Improvement	Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.
Medium Risk	These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.
High Risk	Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not “show stopping” but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.
Critical Risk	Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the organisation’s objectives in relation to: The efficient and effective use of resources, The safeguarding of assets, The preparation of reliable financial and operational information, Compliance with laws and regulations and corrective action needs to be taken immediately.

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	RISK MANAGEMENT DEVELOPMENT PLAN – STATUS REPORT		
DATE OF DECISION:	24 th JULY 2017		
REPORT OF:	SERVICE DIRECTOR FINANCE & COMMERCIALISATION		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail:	Peter.rogers@southampton.gov.uk	
Director	Name:	Mel Creighton	Tel: 023 8083 4897
	E-mail:	mel.creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
None	
BRIEF SUMMARY	
Effective management of risk should be seen as an ‘enabler’ in terms of achievement of the Council’s key priorities and outcomes and in responding positively to opportunities as they may arise. The Risk Management Development Plan sets out the actions necessary for the Council to develop a more ‘risk aware’ approach and, in so doing, benefit from risk being embedded and integrated within the organisation and its’ key business processes.	
RECOMMENDATIONS:	
(i)	To note the Risk Management Development Plan – Status Report (Appendix 1).
REASONS FOR REPORT RECOMMENDATIONS	
1.	The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement. In addition, the Committee needs to satisfy itself 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.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	This is an update of an agreed plan therefore no alternative options have been considered.
DETAIL (Including consultation carried out)	
3.	The Risk Management Development Plan was presented and approved by the Governance Committee at the February 2017 meeting with a commitment that the agreed actions would be managed via an action plan with periodic progress reports to both the Council’s Management Team and the Governance Committee.
4.	The Risk Management Development Plan sets out the actions necessary for

	the Council to develop a more 'risk aware' approach and, in so doing, benefit from risk being embedded and integrated within the organisation and its' key business processes. The plan reflects a combination of best practice together with a consideration of those outcomes and proportional actions that will demonstrably 'add value'. The actions are intended to support the Council in moving toward a more 'risk aware' approach with the aim that risk management is used to support informed decision taking and is recognised by management teams as tool that can be used to support the delivery of key outcomes and priorities including consideration of business or commercial opportunities.
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RESOURCE IMPLICATIONS

Capital/Revenue

5. None

Property/Other

6. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

7. The Accounts and Audit (England) Regulations 2015 Part 2 Section 3A(c) required the Council to have in place a 'sound system of internal control which includes effective arrangements for the management of risk'.

Other Legal Implications:

8. None

RISK MANAGEMENT IMPLICATIONS

9. Delivery of the action plan, with the support and engagement of both managers and members is intended to support the Council in moving toward a more 'risk aware' approach.

POLICY FRAMEWORK IMPLICATIONS

10. None

KEY DECISION?	No
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WARDS/COMMUNITIES AFFECTED:	None
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SUPPORTING DOCUMENTATION

Appendices

1. Risk Management Development Plan – Status Report

Documents In Members' Rooms

1. N/A

Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (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
Other Background Documents 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.		
2.		

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Risk Management – Development Plan

STATUS REPORT – July 2017

AGREED ACTION		STATUS	COMMENTS / ACTIONS	LAST UPDATE
1. OUTCOME: Decision makers are provided with relevant and proportional information regarding the risks that may be associated with the activity, project or initiative in order to support informed decision taking				
1	Corporate Report Template and the associated Decision Making: Corporate Standards & Guidance for Officers to be amended and republished.	COMPLETED	'Risk Management' paragraph now included as part of the 'corporate report template' together with a link to guidance document that is intended to guide the report author in terms of the appropriate and proportional risk information that should be provided to the 'decision maker'.	18/05/17
2	Existing 'Decision Risk' guidance document to be amended.	COMPLETED		18/05/17
3	Training / support for report authors to be made available.	IN PROGRESS	Meeting held with Learning & Development to discuss learning /training options in respect of both officers and Members. Learning Needs Analysis currently being considered by L&D in terms of how it is progressed.	03/07/17
2. OUTCOME: The Council has identified and understands the key risks that may impact on the delivery of its key priorities and outcomes and appropriate action is taken to manage or mitigate the risk where it is considered to be unacceptable				
4	Annually, as part of the business planning process, CMT should review and consider the Council's strategic risks for the forthcoming period and consider what it requires in terms of output/information in respect of risk which, in turn, should reflect the Council's risk appetite.	IN PROGRESS	Strategic Risk Register updated to reflect the end Q1 17-18 position. To be reviewed by CMT (on 25 th July 2017) to ensure that the risks are still appropriate and to new consider any new or emerging risks.	06/07/17
5	Strategic Risk Register to be managed by the Strategy and Operations Hub Management Teams via a quarterly review process. Updated document to be circulated to CMT for noting.	IN PROGRESS	To be scheduled around the CMT meeting date	22/06/17

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Appendix 1

Agenda Item 9

AGREED ACTION		STATUS	COMMENTS / ACTIONS	LAST UPDATE
6	A corporate risk reporting cycle to be adopted in line with the business planning and monitoring timetable.	DEFERRED	The new corporate business planning process, introduced 2016, is being reviewed with work currently being planned around the next steps for 2017. There is no formal monitoring cycle established at this stage.	07/07/17
3. OUTCOME: Individual service areas have identified and understand the key risks that may impact on the delivery of key priorities and outcomes				
8	Service Management Teams to identify and report on significant risks.	NOT PROGRESSSED	To be progressed in Q2 - Q3. Where possible to be aligned with the corporate business planning process in terms of seeking to ensure that the risks reflect and relate to key service priorities and outcomes.	11/07/17
9	A risk reporting cycle to be aligned with the corporate risk reporting cycle.	NOT PROGRESSSED	See comments in Item 6.	11/07/17
10	Service Management Teams to nominate a 'risk lead/sponsor'.	NOT PROGRESSSED	See comments in Item 8.	11/07/17
11	Appropriate training / support to be made available.	IN PROGRESS	See comments in Item 3. It is intended that this forms part of the learning and development solution that is created.	03/07/17
4. OUTCOME: Cabinet Members have an awareness and understanding of the key risks associated with their portfolio				
12	Both the Strategic and Service Risk Register to include reference to the portfolio(s) to which the risks relate.	IN PROGRESS	Reference to 'Portfolio' is now captured in the Strategic Risk Register. Service Risk Registers to be developed.	05/07/17
13	Risk reporting should be included as part of the Cabinet Member briefing process.	NOT PROGRESSSED	To be implemented when the Strategic and Service risk information is available	11/07/17
14	Service Lead - Risk, Insurance, Assurance & Audit to provide advice and support to service areas in terms of the risk	NOT PROGRESSSED	To be provided when both the Strategic and Service risk information is available	11/07/17

AGREED ACTION	STATUS	COMMENTS / ACTIONS	LAST UPDATE
information that is presented at Cabinet Member Briefings.			
5. OUTCOME: There is a consistent and well understood corporate approach in respect of how risk is managed			
15 The current draft Risk Management Policy should be refreshed for 2017-18 and presented to both CMT and the Governance Committee (April 2017 meeting) for approval.	COMPLETED	Risk Management Policy for the period 2017/18-20/21 approved by CMT / Governance Committee (Feb 17)	14/02/17
16 The Policy should include an annual 'Risk Management Action Plan'.	COMPLETED	The 'Development Plan' constitutes the action plan for 2017-18.	14/02/17
17 The Risk Management Policy should be published on the intranet.	COMPLETED	Risk Management Policy 2017/18-20/21 published on the intranet.	15/03/17
18 The Risk Management Policy should be included in the strategy and policy framework (recognising that it will need to follow the corporate template in order that it meets the design standards for the council).	COMPLETED	The format of the Risk Management Policy is in accordance with the new strategy and policy framework template.	14/02/17
19 The Risk Management Policy to be approved by the Senior Leadership Team / Council Management Team and Cabinet Member in order to escalate the importance and it then hosted on the new policy hub.	COMPLETED	Risk Management Policy also approved by Council in February 17 (as part of the Medium Term Finance Strategy 17/18-20/21 document). Published on the new 'Policy Hub' under 'Level 3 - Supporting Policies, Plans and Guidance'	14/02/17
20 Communication and training options should be identified including consideration of e-learning for new or existing staff.	IN PROGRESS	Information obtained from those Council's known to use RM e-learning tools. Meeting held with Learning & Development to discuss learning / training options in respect of both officers and Members. Learning Needs Analysis currently being considered by L&D in terms of how it is progressed.	03/07/17

AGREED ACTION		STATUS	COMMENTS / ACTIONS	LAST UPDATE
21	The new staff 'Performance Contracts' and the monitoring arrangements should provide the opportunity to reinforce expectations in respect of responsibilities for managing risk and to dispel any perceptions in respect of a 'blame culture'.	COMPLETED	The standard wording of the new Performance Contracts being rolled out to all staff includes a requirement that employees "escalate risks and issues which may impact any aspect of performance or the Council's reputation".	20/06/17

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	EXTERNAL AUDIT – AUDIT RESULTS REPORT		
DATE OF DECISION:	24 JULY 2017		
REPORT OF:	EY LLP		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Martin Young	Tel: 02380 382220
	E-mail:	myoung1@uk.ey.com	
Director	Name:	Mel Creighton	Tel: 02380 834897
	E-mail:	Mel.Creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	
BRIEF SUMMARY	
The Audit Results Report (to follow) summarises the findings from the 2016/17 audit. It includes the messages arising from the audit of the Council’s financial statements and the results of the work undertaken to assess the Council’s arrangements to secure value for money in its use of resources.	
RECOMMENDATIONS:	
(i)	To note the external auditor’s ‘Audit Results Report’ as attached in Appendix 1 (to follow).
REASONS FOR REPORT RECOMMENDATIONS	
1.	The Governance Committee’s terms of reference require it to be satisfied that appropriate action is taken on risk and internal control related issues identified by the external auditors. Specifically, the Committee has responsibility for oversight of the reports of external audit.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	None.
DETAIL (Including consultation carried out)	
3.	The report (to follow) will be discussed and agreed with the Mel Creighton, (Service Director - Finance & Commercialisation and s151 officer).
4.	The external auditor will be in attendance at the Governance Committee meeting to answer questions and to provide an update of any further findings identified in completing the audit.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
5.	None.
<u>Property/Other</u>	
6.	None.

LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
7.	Local Audit and Accountability Act 2014.
Other Legal Implications:	
8.	None.
RISK MANAGEMENT IMPLICATIONS	
9.	None.
POLICY FRAMEWORK IMPLICATIONS	
10.	None.

KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	N/A
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Audit Results Report 2016/17 (to follow).
2.	

Documents In Members' Rooms

1.	None.
2.	

Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	Yes/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.	Yes/No
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Other Background Documents

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.
2.	

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	EXTERNAL AUDIT – LETTER OF REPRESENTATION		
DATE OF DECISION:	24 JULY 2017		
REPORT OF:	EY LLP		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Martin Young	Tel: 02380 382220
	E-mail:	myoung1@uk.ey.com	
Director	Name:	Mel Creighton	Tel: 02380 834897
	E-mail:	Mel.Creighton@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	
BRIEF SUMMARY	
The Letter of Representation declared to the auditor that, in so far as the signatory is aware, all matters relevant to our responsibilities have been declared to the auditor and, where appropriate, presented in the financial statements.	
RECOMMENDATIONS:	
(i)	To approve the letter of representation.
REASONS FOR REPORT RECOMMENDATIONS	
1.	The external auditor requires the assurances provided by this letter prior to finalising their audit of the Council's 2016/17 financial statements.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	None.
DETAIL (Including consultation carried out)	
3.	The letter or representation will be discussed and agreed with the Mel Creighton, (Service Director - Finance & Commercialisation and s151 officer) prior to presenting to the Governance Committee.
4.	The external auditor will be in attendance at the Governance Committee meeting to answer questions and to provide an update of any further findings identified in completing the audit.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
5.	None.
<u>Property/Other</u>	
6.	None.

LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
7.	Local Audit and Accountability Act 2014.
Other Legal Implications:	
8.	None.
RISK MANAGEMENT IMPLICATIONS	
9.	None.
POLICY FRAMEWORK IMPLICATIONS	
10.	None.

KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	N/A
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Letter or representation
2.	

Documents In Members' Rooms

1.	None.
2.	

Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	Yes/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.	Yes/No
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Other Background Documents

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.
2.	

Letter of representations

Appendix 1

[To be prepared on the entity's letterhead]

24th July 2017

Ernst & Young LLP
Wessex House,
19 Threefield Lane,
Southampton,
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of Southampton City Council ("the Council") for the year ended 31st March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Southampton City Council as of 31st March 2017 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on

Letter of representations

Local Authority Accounting in the United Kingdom 2016/17, that are free from material misstatement, whether due to fraud or error.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are

Letter of representations

aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.
4. No material claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. Other than those described in Note 7 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Comparative information – corresponding financial information

1. Comparative amounts have been restated as a result of CIPFA's 'Telling the Story' review to improving the presentation of local authority financial statements.

The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

Letter of representations

I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate valuation of property, plant and equipment, and the pension fund liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

J. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.
2. We confirm that the significant assumptions used in making accounting estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the applicable financial reporting framework.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

K. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Service Director of Finance and Commercialisation

I confirm that this letter has been discussed and agreed at the Governance Committee on 24 July 2017.

(Chairman of the Governance Committee)

Letter of representations

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DECISION-MAKER:		GOVERNANCE COMMITTEE			
SUBJECT:		DIRECT PAYMENTS			
DATE OF DECISION:		24 JULY 2017			
REPORT OF:		SERVICE DIRECTOR, ADULTS, HOUSING AND COMMUNITIES			
<u>CONTACT DETAILS</u>					
AUTHOR:	Name:	Paul Juan	Tel:	023 8083 2530	
	E-mail:	paul.juan@southampton.gov.uk			
Director	Name:	Paul Juan	Tel:	023 8083 2530	
	E-mail:	paul.juan@southampton.gov.uk			

STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	
BRIEF SUMMARY	
This report outlines the actions being taken to address concerns raised in the internal audit review of direct payments, which gave an opinion of 'no assurance'.	
RECOMMENDATIONS:	
	(i) To note the actions being taken to address concerns raised in the internal audit report of direct payments, issued on 14 June 2017.
REASONS FOR REPORT RECOMMENDATIONS	
1.	The Governance Committee requested an update following its consideration of the Annual Audit Report and Opinion 2016/17 on 12 June 2017.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	No other options have been considered and rejected.
DETAIL (Including consultation carried out)	
3.	Direct payments are given to adults with care and support needs to enable them to arrange and pay for their own care, rather than this being arranged on their behalf by the council. This leads to more choice and control for individuals, improved outcomes and can support independence. The amount of money paid depends on the needs identified following a social care assessment carried out under the Care Act 2014 and a financial means test.
4.	The internal audit review of direct payments was carried out to assess the effectiveness of controls in place focusing on those designed to mitigate risk in achieving the following key objectives: <ul style="list-style-type: none"> • There are comprehensive and up to date policies and procedures for staff to ensure that the direct payments process is completed correctly and responsibilities are clearly defined; • The direct payments process is followed and records are held for each stage on the social care electronic case management system; • Clients are made aware of how to manage direct payments and

	<p>offered support where applicable;</p> <ul style="list-style-type: none"> • Clients' needs and direct payments are regularly reviewed to ensure that the payment remains appropriate and is being used in line with departmental procedures.
5.	<p>The 2016/17 Annual Audit Report highlighted the following significant concerns across the breath of the direct payments process:</p> <ul style="list-style-type: none"> • For more than half of the records sampled no direct payment agreement had been signed by the 'client' or 'suitable person' or recorded on the social care case management system; • Where a 'suitable person' was managing a direct payment, there was no evidence to support that all within the sample tested had been assessed as appropriate and approved to manage the direct payment on behalf of the client; • Care managers were not carrying out regular reviews to establish whether the needs of the client had changed and the direct payment remained appropriate. Of those tested over half had not received a regular annual review. Additionally there was no evidence for over half of the clients sampled that integrity checks had been undertaken on their bank account and supporting paperwork; • There was no information recorded for 66% of direct payments reviewed to confirm they had been audited by the Payments Team (eight of which were higher value payments (over £350 p/w). There was no record of clients who had been issued an audit letter or a response rate; • A new interface between the social care and financial management systems, to make direct payments to clients, had been introduced during the year. Testing of the direct payment actually paid to the client against the amount recorded in the social care system did not agree for 50% of records tested. Variances were also found in the amount of the client contribution recorded and the amount deducted; • From sample testing two overpayments were made to clients in January 2017 (in excess of £30k and £1k respectively) where clients had been paid at a daily rate instead of a monthly rate. The overpayments were repeated in February despite being highlighted in January; • Key policy and guidance documentation is overdue for review; • As a more general observation documentation was not consistently or comprehensively recorded or was not always easy to locate. This was previously raised as an issue in the 2015/16 annual report and opinion.
6.	<p>The final internal audit report, incorporating the management action plan, was issued on 12 June 2017. Prior to the report being finalised, the action plan was reviewed by the council's Senior Leadership Team, which is chaired by the Chief Executive. The management action plan contains 43 actions, with a focus on effective leadership and robust governance. The auditor's assessment of the management response was that, once implemented, the actions would help to mitigate future risk. 32 of the 43 actions have been completed and none of the actions are overdue.</p>
7.	<p>The Service Director, Adults, Housing and Communities has been identified as the Council Management Team (CMT) sponsor and is accountable for delivering the management action plan, leading improvements in the end to end customer journey and ensuring compliance.</p>

8.	The direct payments process is currently subject to an 'intensive care' procedure (Recovery Board) to support rapid improvement, with monthly meetings chaired by the Chief Executive.
9.	The Organisational Design Board has approved additional staff (8 FTE) and a structure that will ensure necessary staff resources are in place to deliver the management action plan (this meets the criteria for being funded by additional adult social care grant, subject to approval by Full Council on 19 July 2017). The additional staff include a dedicated Senior Social Work Practitioner (1 FTE) who has been seconded to lead the work of a new direct payments team and recruitment to additional posts in the Accounts Payable Team (1.5 FTE) has commenced.
10.	The management action plan aligns with the work to reduce the backlog of adult social care reviews, which is now being done by a dedicated in house team and will ensure that timely reviews of care needs and direct payments are carried out.
11.	The council has procured and is implementing a new payment card system for direct payments provided by Allpay, which provides complete transparency over how payments are being used and facilitates effective audit of individual customer accounts (the highest performing councils use this approach to administer direct payments).
12.	New processes are now in place, which have resolved issues that had been identified with the interface between the council's electronic adult social care and financial management systems. Revised procedures are also being implemented to reduce, monitor and recover any overpayments and to ensure accurate recording.
13.	The council has implemented a new accredited learning and development programme for social workers and care managers, the Southampton City Council Certificate in Adult Social Work Practice. All relevant staff will complete the mandatory direct payments module by 30 September 2017.
14.	Liaison has taken place with the new Internal Audit service to ensure effective transition to new audit arrangements and to agree date of next audit in order to demonstrate assurance in the framework of control and that risks are being appropriately mitigated following implementation of this action plan. The new audit will take place later in 2017/18 once the new direct payments team, systems, processes and procedures are in place and fully embedded.
15.	A dedicated audit resource from the council's new Internal Audit service will support the project team and provide regular position updates to the Senior Leadership Team and Recovery Board, making use of a new data analytics system (IDEA).
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
16.	Subject to approval at Full Council on 19 July 2017, an additional £350,000 has been identified to establish a dedicated direct payments team, which will support delivery of the management action plan. This will be funded during 2017/18 by a Government grant.
<u>Property/Other</u>	
17.	There are no property or other resource implications arising from this report.

LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
18.	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’.
19.	The Care Act 2014 and associated regulations set out the legal basis for assessing and reviewing eligible social care needs and making direct payments.
<u>Other Legal Implications:</u>	
20.	There are no other legal implications arising from this report.
RISK MANAGEMENT IMPLICATIONS	
21.	The overall opinion of the review based on the audit evidence obtained, is that no assurance can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives. An opinion of ‘no assurance’ arises from a fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks to the achievement of system objectives. The actions contained in the management report will, once implemented, mitigate the risk.
POLICY FRAMEWORK IMPLICATIONS	
22.	Administering direct payments supports delivery of the Southampton City Council Strategy 2016-2020 and, in particular, the key outcome of supporting people in Southampton to live safe, healthy and independent lives. This also supports delivery of the Health and Wellbeing Strategy 2017-2025 and the Southampton Better Care Plan.

KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	ALL
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	None

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 Assessment (ESIA) to be carried out.	Yes/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.	Yes/No
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Other Background Documents**Other Background documents available for inspection at: Civic Centre,
Southampton, SO14 7LY**

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.	Final internal audit report – direct payments 2016/17 (issued 12 June 2017)
2.	Annual internal audit report and opinion 2016/17 (May 2017)

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DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	Procurement – sub £100k spend		
DATE OF DECISION:	24 July 2017		
REPORT OF:	Service Director, Digital and Business Operations		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Paul Paskins	Tel: 023 8083 4353
	E-mail:	paul.paskins@southampton.gov.uk	
Director	Name:	Rob Harwood	Tel: 023 8083 3436
	E-mail:	rob.harwood@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
N/A	
BRIEF SUMMARY	
This report updates the Governance Committee on the findings of an audit of below £100k procurement activities in 2016-17, associated issues and the remedial actions being taken.	
RECOMMENDATIONS:	
(i)	The Governance Committee notes the issues detailed in this paper.
(ii)	The Governance Committee requests a further paper in January 2018 to detail progress in resolving the issues outlined in this paper.
REASONS FOR REPORT RECOMMENDATIONS	
1.	The issues outlined in this paper are long-standing, but are being addressed through a series of robust remedial actions.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	None
DETAIL (Including consultation carried out)	
Background and Scope	
3.	This report updates the Governance Committee on what is known as the ‘Sub £100k’ procurement process i.e. procurement activities and projects with a spend of less than £100k.
4.	The Governance Committee are asked to note that if officers fail to adhere to the prescribed processes the council may, in some cases, be missing opportunities to reduce some costs relating to the engagement of third party suppliers.
5.	The Governance Committee are further asked to note that, in many cases, stronger adherence to the process would have no effect on the costs to the council and that the issues contained in this report do not constitute any breach of legal obligations.

6.	There is no known evidence of any officer undertaking fraudulent activity in regard to the Sub £100k process. If any fraudulent activity is identified as a result of the actions described in this report, then this would of course be dealt with in accordance with the council's Disciplinary Policy.
7.	The new Supplier Management function was established in late 2016. Part of the remit of this function is to oversee the council's third party spend. The issues detailed in this report regarding adherence to the Sub £100k process were quickly identified by Supplier Management and supporting data and evidence was collected.
8.	This supporting data was supplied to the associated audit by the Southern Internal Audit Partnership in respect of Procurement (Sub 100k) 2016/17 ("the audit report"). The audit report found that " <i>limited assurance could be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives</i> " and put in place a number of management actions to address this.
9.	This report focusses on procurement requests of less than £100k in total value which should adhere to the Sub £100k process as set out in the Contract Procedure Rules (CPR's) (and which for the purpose of this report, is termed "influenceable spend").
10.	It should be noted that this report does not consider activities which relate to below £100k spend which have been made against existing contracts or exemptions which have been granted in accordance with the CPRs. In accordance with the audit report, it also excludes Integrated Commissioning Unit (ICU) spend, for which to date, activity has not fully been undertaken by the Sub £100k team. For the purpose of this report the categories referred to in this paragraph is termed "non-influenceable spend".
11.	In 2014 the Strategic Service Partnership (SSP) between the council and Capita was extended to create a single operating model for procurement under £100,000 managed by Capita's "Sub £100k team".
12.	The creation of the Sub 100k team was intended to ensure that procurement activity for requirements of less than £100,000 in total value would be managed and delivered centrally by procurement professionals (rather than council officers as it had been the case previously). This aimed to deliver benefits and value to the council by acting as a demand challenge, delivering compliant procurement processes, ensuring visibility of 3 rd party spend council wide and allowing for intelligent procurement of repeat and/or multiple requirements whilst ensuring all council buying activity adhered to public procurement principles.
13.	This centralised approach to procurement also allowed the council to implement best practice across all its procurement activity and benefit from central purchasing power including achieving greater discounts and the appropriate use of frameworks whilst leaving council officers free to undertake their core roles, the consequence of which would drive out cost saving opportunities and/or process avoidance.

	Issues
14.	The key issue relates to the influenceable spend for which there is no contractual arrangement in place and where purchasing officers may undertake the procurement themselves, in some cases without following the Sub £100k process (for example, making a commitment to pay before a Purchase Order has been authorised).
15.	During the period 1 April 2017 to 30 June 2017, data in respect of the Sub 100 spend managed by the Sub £100k team (including both influenceable and non-influenceable spend) demonstrated that approximately 30% of all Sub £100k requests related to influenceable spend although the value of these requests equated to only approximately 5% of the total Sub £100k spend for this period. In summary, this indicates that influenceable spend consists mainly of multiple, lower value requests.
16.	With effect from May 2017, the CPRs have been amended to mandate that all procurement activity above £1,000 (previously £10,000) in value must be managed by the Sub 100k team to ensure that the correct process is being adhered to for these low value, high volume requests and council officers are clear that they should not be procuring such requirements themselves.
17.	The audit report also identified some lack of clarity over which service areas were required to adhere to the Sub 100k process. All service areas within the council are obliged to utilise the Sub 100k service (although historically this has not always been the case). Due to the nature of ICU service area, much of its 3 rd party spend commitments are governed by contractual arrangements which the council is unable to unilaterally influence (for example, inter-agency adoption arrangements, SEN top ups and social care assessments). Spend outside of such arrangements, however, are subject to the Sub £100k process.
	Data associated with the Sub 100k Procurement Process
	<u>1st April 2016 – 31st March 2017</u>
18.	Data for this period demonstrates that the council spent approximately £27 million on influenceable spend and £25.2 million of this did not fully and consistently follow the Sub £100k process.
19.	This data differs slightly from that referred to in the audit report because, as recognised in the audit report, the original data contained some inconsistencies. To provide a clear comparison of the situation from April 2016 to June 2017, the original data for 2016-17 has been re-run based to include influenceable spend only for this period.
20.	This influenceable spend should be considered in the context of the overall under £100k third party spend processed by the Procurement Service for the period, which totalled approximately £142 million.

	<u>1st April 2017 to 30th June 2017</u>									
21.	<p>Data for this period demonstrates that the council spent approximately £2.5M in influenceable spend and approximately £2.2M has not followed the Sub 100k process. This should be considered in the context of the overall third party spend processed by the Procurement Service for the period, which totalled approximately £52M.</p> <p>Chart 1 - Summary of April 2016 – June 2017</p> <table border="1"> <caption>"Process not followed" summary</caption> <thead> <tr> <th>Category</th> <th>Apr 2017 - June 2017</th> <th>Apr 2016 - March 2017</th> </tr> </thead> <tbody> <tr> <td>Number of requests</td> <td>~90%</td> <td>~92%</td> </tr> <tr> <td>Value of requests</td> <td>~88%</td> <td>~95%</td> </tr> </tbody> </table> <p>Chart 1 demonstrates that there has been a slight decrease the number of requests which have not followed the Sub £100k process since April 2017 and this trend it is expected to continue based activity planned and set out in this report.</p>	Category	Apr 2017 - June 2017	Apr 2016 - March 2017	Number of requests	~90%	~92%	Value of requests	~88%	~95%
Category	Apr 2017 - June 2017	Apr 2016 - March 2017								
Number of requests	~90%	~92%								
Value of requests	~88%	~95%								
	Remedial Action									
22.	The management actions agreed as a result of the audit report and these, and progress towards their completion, are shown at Appendix 1.									
23.	In addition to the actions in the audit report, a series of steps are being taken to address non adherence to the Sub £100k process.									
24.	Meetings have been held with all Service Directors to review the influenceable spend in their areas for 2016-17 and to ensure that senior sponsorship is secured in respect of the Sub £100k process moving forward.									
25.	Communications (both verbally and in writing) have been issued to the Council Leadership Team to emphasise the mandatory elements of the Sub £100k procurement processes which must be adhered to when undertaking any purchasing activity. These communications were jointly issued by the Chief Executive and Chief Operations Officer.									

26.	<p>The CPRs have been revised, published and communicated. The CPRs now:</p> <ol style="list-style-type: none"> a. make clear that council procurement requirements must be channelled through the Sub £100k team and require them to obtain (on the requesting officer's behalf) at least 3 quotes for requirements of £1,000 or more in value (previously this was only in respect of £10,000 or above). It is envisaged that this will address the multiple low value activities which were not previously encompassed in the Sub £100k process; b. streamline the procurement process by allowing a supplier to be appointed if only one tender or quote is received and c. require procurement exemptions to be conditional on the relevant Service Director providing and agreeing a plan with the Service Director – Digital and Business Operations to mitigate the need for further exemptions.
27.	<p>A revised Procurement Strategy is being developed which sets out the council's requirement for a centrally managed procurement service to achieve best value and compliancy for all council procurement activity.</p>
28.	<p>Workshops have been conducted with officers around 75 officers to obtain 'user' feedback and to inform potential improvements to the Sub £100k process to ensure that it is fit for purpose and utilised by all. Anonymous feedback forms were also completed by attendees and further workshops will be run in summer 2018 to assess how perceptions and experiences of the Sub £100k process has changed.</p>
29.	<p>Development and implementation of the Procurement Service Development Plan which will improvement the service as a whole including:-</p> <ol style="list-style-type: none"> a. Developing and rolling out mandatory e-learning training, which will cover all aspects of the procurement within the council (relevant to roles); b. Reviewing procurement processes and documentation including re-positioning the Sub £100k process on the intranet; c. Developing focused and clear process maps reflecting key "user journeys" and roles and responsibilities; d. Developing easy web links with service information via "staff stuff" including contact information, improved forms and guidance; e. Working with service areas to establish what their repeat needs are and procuring contractual arrangements to allow these needs to be met quickly and easily and f. Reviewing cross council spend to ensure that repeat requirements are effectively identified and procured compliantly.
30.	<p>Working with the ICU service area to ensure that the Sub £100k team is utilised where contracts/arrangements with other public bodies are not in place.</p>
31.	<p>Development of the process conformance dashboard which allows for adherence to the Sub £100k process to be centrally tracked and reported.</p>
32.	<p>Implementation of the Procurement and Contract Management Board (PCMB) (chaired by the Chief Operating Officer and attended by the Cabinet Member for Environment and Transport) which, amongst other things, will review the levels of exemption requests received on a monthly basis and report level of conformance with the CPRs through the conformance dashboard.</p>

	Conclusions
33.	It is anticipated that the actions required by the audit report, which were (in the main) already in progress, coupled with the additional focus of developing training and improving guidance around the Sub £100k process will result in significantly increased compliance with the process over the next 12 months.
34.	PCMB will monitor the conformance and will ensure accountability. Where appropriate, officers who do not adhere to the Sub £100k process may be subject to disciplinary proceedings in accordance with section 2.1 of the CPRs.
35.	It is proposed that a follow up report is provided to the Governance Committee in January 2018 setting out progress against the activity set out in this report and providing updated data associated with adherence with the Sub £100k procurement process.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
36.	None
<u>Property/Other</u>	
37.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
38.	None
<u>Other Legal Implications:</u>	
39.	None
RISK MANAGEMENT IMPLICATIONS	
40.	See main body of this report.
POLICY FRAMEWORK IMPLICATIONS	
41.	None

KEY DECISION?	No	
WARDS/COMMUNITIES AFFECTED:	All wards	
<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	Progress against actions contained in audit report 2016-17	
Documents In Members' Rooms		
1.	N/A	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (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		
Other Background documents available for inspection at: N/A		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	N/A	

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Appendix 1 – Progress against actions contained in audit report 2016-17

Action	Target date	Status
1.1 and 3.1 Develop a revised conformance dashboard with appropriate Quality Assurance process associated with it and a clear scope to ensure the compliance position is accurately reported.	End June 2017	Completed
1.2 and 3.2 Arrange for the new constituted Procurement and Contract Management Board (chaired by the COO) to review conformance on a monthly basis and allocate and review actions to address non-conformance.	End June 2017	Completed
1.3 Review processes to ensure that Procurement only have sight of categories of orders which are within scope for them to address.	End July 2017	In progress
2.1 Ensure that the conformance dashboard and aggregation data capture is effective.	End July 2017	Completed
2.2 Review how the Hays contract is being used and its fitness for purpose.	End July 2017	In progress
4.1 Undertake a full review of the process associated with setting up new suppliers in Agresso, how this could effectively be restricted and how the process ensures compliance with Contract Procedure Rules.	End Sept 2017	In progress
4.2 Create and implement an action plan based on the outcome of the review described Management action 4.1.	End Oct 2017	In progress
5.1 Revise Contract Procedure Rules to incorporate the items observed in action plan 6.	End April 2017	Completed
5.2 Arrange for the approval of revised CPRs by Council.	End May 2017	Completed

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