

Annual Internal Audit Report & Opinion

2013 – 14

Southampton City Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2011, which states that a relevant body must:

‘Undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.

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

The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of Southampton City Council's audit need that has been covered within the period

Audit Opinion

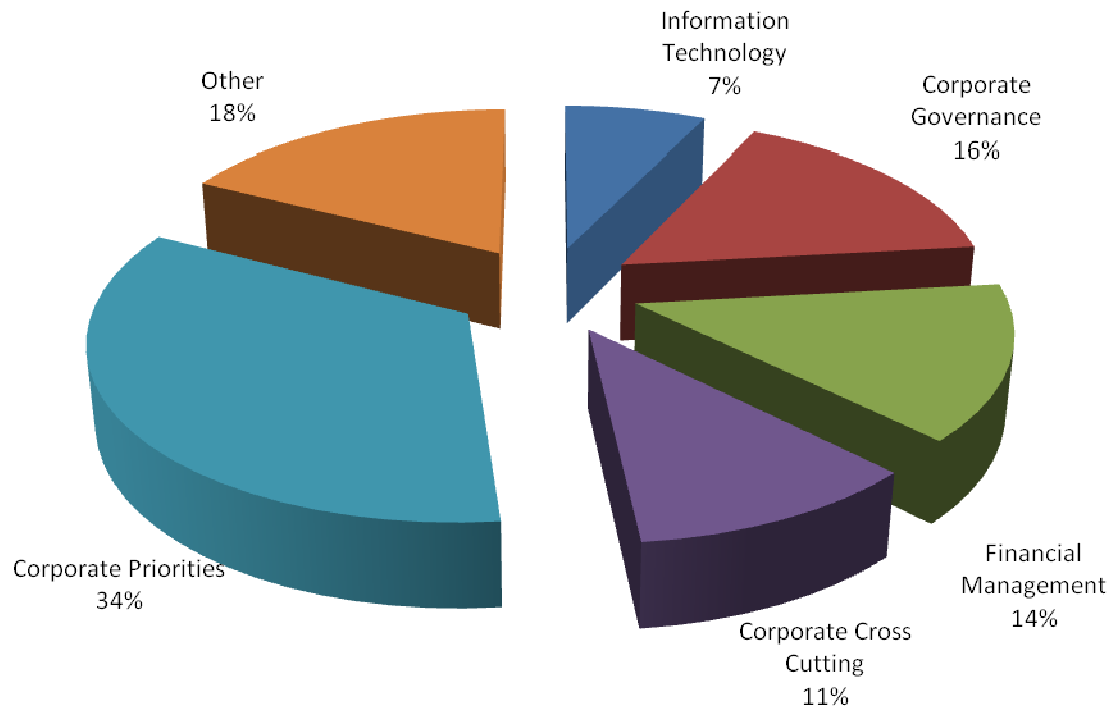
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Southampton City Council's internal control environment.

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.

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2013-14 Internal audit plan, approved by the Governance Committee, 30 April 2013, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

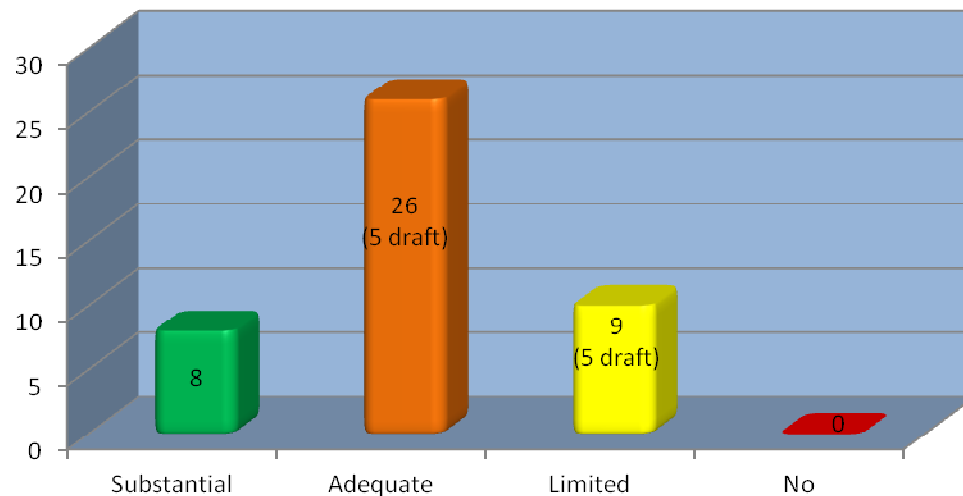
The plan has remained fluid throughout the year to maintain an effective focus.

The Southern Internal Audit Partnership delivered 999 days across 61 review areas over the course of the year ending 31 March 2014

The revised 2013-14 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 10 reviews, however, final reports have not yet been agreed with management:

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



Substantial - A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified;

Adequate - Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified;

Limited - Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

No - Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

*18 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, assurance mapping, grant certification or investigations

5. Significant Issues Arising

There were no significant issues arising from internal audit work carried out in accordance with the 2013/14 audit plan.

Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers

6. Anti Fraud and Corruption

The Council continue to conform to the National Fraud Initiative (NFI). Feedback through the 2012/13 NFI exercise (during 2013-14) identified 2,452 'recommended matches'. Within the year work has been on-going to investigate identified matches for fraudulent activity.

	Recommended Matches	Processed	% Complete
Housing Benefits	675	216 (16)	32
Payroll	95	54 (8)	57
Housing Tenants	32	32 (4)	100
Right to Buy	10	10 (3)	100
Blue Badge	755	724	96
Concessionary Passes	441	441	100
Residents Parking Permits	15	15	100
Private Residential Homes	7	7	100
Creditors	343	343	100
VAT	79	79	100
	2,452	1,921	

Outcomes from investigations to date have identified three fraudulent cases and 35 errors providing saving of £62,213.83. Work will continue to review the remaining 'recommended matches'

In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of four allegations of fraud, corruption or improper practice. A number of these cases were allegations made under the Duty to Act ("Whistle blowing") Policy. Of these:

- 1 officer resigned during the course of our investigation;
- 2 were investigated, resulting in disciplinary action; and
- 1 investigation remains on-going

We have subsequently provided advice to management on a number other cases as required

7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a new requirement within 'the Standards'.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against 'the Standards' and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

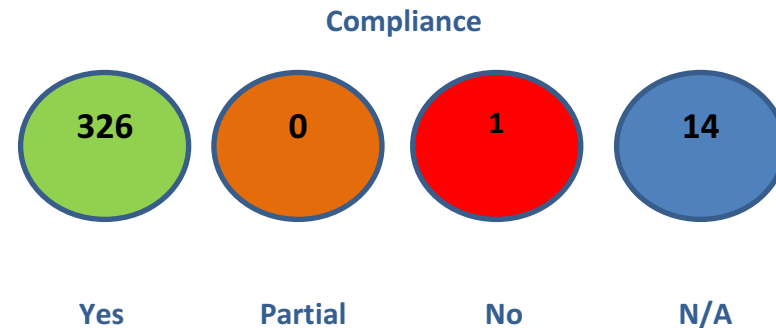
In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

The Standards stipulate that ‘internal assessments’ should be undertaken as a self-assessment or by other persons within the organisation with sufficient knowledge of internal audit processes.

During 2013 – 14 The Head of the Southern Internal Audit Partnership undertook a self-assessment against the Standards and the LGAN. To provide independence to the process the self –assessment was reviewed by Hampshire County Council’s Monitoring Officer to ensure it presented a true and fair view.

Independent analysis confirmed that the self-assessment provided ‘a fair assessment of the internal audit activity’

The form of the external assessment must be agreed with Senior Management and the Board. A paper is scheduled to be presented to the Partnership Board in September 2014 to review the alternative options for external assessment.



8. Disclosure of Non-Conformance

‘It is my opinion that in all material respects the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’

Whilst the Standards only require non-conformance to be disclosed when it impacts the overall scope or operation of the internal audit activity, the additional requirements for the public sector state ‘that all instances of non-conformance and progress against improvement plans must be reported in the annual report’. The QAIP Action Plan is provided at Appendix 1.




9. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2013-14 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to ensure development of a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- A review of the ‘Effectiveness of the System of Internal Audit’ in accordance with the Accounts and Audit (England) Regulations 2011;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures; and
- Review and quality control of all internal audit work by professional qualified senior staff members.

10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Annual performance indicators			
Aspect of service	2012-13 Actual (%)		2013-14 Actual (%)
Revised plan delivered (including 2012/13 c/f)	97		98
Positive customer responses to quality appraisal questionnaire	94		98
Compliant with the Public Sector Internal Audit Standards	Yes		Yes

11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Southampton City Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
Head of Southern Internal Audit Partnership
June 2014

Appendix 1 – Quality Assessment & Improvement Action Plan

Compliance against the Public Sector Internal Audit Standards / Local Government Application Note

**Public Sector Internal Auditing Standards
Action Plan – No Compliance**

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
3.2 - Independence and Objectivity					
Does the board: e) approve decisions relating to the appointment and removal of the CAE	No	Such actions are not constitutionally permissible to be undertaken by the board (Local Authorities (Standing Orders) (England) Regulations 2001)	To continue to follow existing County Council Standing Orders and procedures in the appointment and dismissal of the Chief Internal Auditor	-	-

**Public Sector Internal Auditing Standards
Action Plan – Not Applicable**

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
3.2 - Independence and Objectivity					
Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?	N/A	There have been no known instances where an internal auditor has used information for personal gain	-	-	-
If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	N/A	There have been no known instances of real or apparent impairment of independence or objectivity.	-	-	-
If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	N/A	The Chief Internal Auditor has no operational responsibilities outside of the internal audit function.	-	-	-
3.4 - Quality Assurance and Improvement Programme					
Has the CAE considered the pros and cons for the different types of external assessment (i.e. 'full' or self-assessment plus 'independent validation')?	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31	The Chief Internal Auditor will present a paper to the Partnership Board exploring the options, form, timing and scope of the external assessment.	Chief Internal Auditor	September 2014

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
		March 2018.			
Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.	The Chief Internal Auditor will present a paper to the Partnership Board exploring the options, form, timing and scope of the external assessment.	Chief Internal Auditor	September 2014
Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.	The Chief Internal Auditor will present a paper to the Partnership Board exploring the options, form, timing and scope of the external assessment.	Chief Internal Auditor	September 2014
Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.	The Chief Internal Auditor will present a paper to the Partnership Board exploring the options, form, timing and scope of the external assessment.	Chief Internal Auditor	September 2014
Has the assessor or assessment team demonstrated its competence in both areas of professional practice of	N/A	The requirement for an external assessment (to be undertaken every 5 years) is new.	The Chief Internal Auditor will present a paper to the Partnership Board exploring the	Chief Internal Auditor	September 2014

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
<p>internal auditing and the external assessment process? Competence can be determined in the following ways:</p> <ul style="list-style-type: none"> a) experience gained in organisations of similar size b) complexity c) sector (ie the public sector) d) industry (ie local government), and e) technical experience. <p>Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.</p>		<p>The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.</p>	<p>options, form, timing and scope of the external assessment.</p>		
<p>How has the CAE used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?</p>	N/A	<p>The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.</p>	<p>The Chief Internal Auditor will present a paper to the Partnership Board exploring the options, form, timing and scope of the external assessment.</p>	Chief Internal Auditor	September 2014
<p>Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.</p>	N/A	<p>The requirement for an external assessment (to be undertaken every 5 years) is new. The PSIAS took effect from 1 April 2013; as such there is no requirement to have completed an external assessment until 31 March 2018.</p>	<p>The Chief Internal Auditor will present a paper to the Partnership Board exploring the options, form, timing and scope of the external assessment.</p>	Chief Internal Auditor	September 2014

Standard	Compliant	Comment	Action	Responsible Officer	Implementation Date
4.1 - Managing the Internal Audit Activity					
Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?	N/A	Internal audit is not provided by an external service provider.	-	-	-
4.5 - Communicating Results					
Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:					
a) The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
b) The reason(s) for non-conformance?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
c) The impact of non-conformance on the engagement and the engagement results?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-

Opportunities for Improvement - Section briefing– 3 March 2014

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
<p>Communication</p> <p>With additional organisations joining the Partnership, the transient nature of audit staff, flexible working options and the fluidity of planning to meet the needs of the client, it is considered that current channels of communication should be enhanced to compliment changing working practices.</p>	<p>Head of Southern Internal Audit Partnership to attend ASMT monthly to capture key messages from the team</p> <p>A monthly email to be circulated to all staff with the key messages (corporate and local)</p> <p>To ensure all relevant staff are notified with any plan changes (ASMT to be copied in on email(s) due to potential impact on other workloads).</p>	<p>Head of Southern Internal Audit Partnership</p> <p>Head of Southern Internal Audit Partnership</p> <p>All of ASMT</p>	<p>Complete</p> <p>Complete</p> <p>Complete</p>
<p>MKI</p> <p>Limitations within MKI prior to the recent upgrade have required a number of workarounds questioning the effectiveness and efficiency of the system. Additionally attaining relevant management information is a cumbersome and timely process.</p>	<p>MKI are currently developing a progress report that will replace the progress control sheet. This will make the monitoring of audits for all staff much easier.</p> <p>Looking to change the hosting of MKI back to the vendor rather than internal. This will resolve the live mobile issues.</p> <p>Once the progress report has been developed, we will ask MKI to develop automated audit reports/outlines and</p>	<p>LE / MKI</p> <p>LE / MKI</p> <p>LE / MKI</p>	<p>June 2014.</p> <p>May 2014</p> <p>June/July 2014</p>

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
	<p>facility to track management actions.</p> <p>Staff to be reminded on the level of scanning needed. We don't need every single document scanned.</p> <p>Should the scanner in room 241 be out of action, an alternative device is available in room 321.</p>	All staff	immediately
<p>Travel</p> <p>Clarity required on with regard travel entitlements in light of the expansion of the Partnership</p>	To introduce a travel policy for the partnership	Head of Southern Internal Audit Partnership	June 2014
<p>Manager review</p> <p>Quality standards require manager and senior manager sign off of all reports with Limited and No assurance reports cleared by the Head of Partnership. Does this remain practicable in light of the extension of the partnership.</p>	Quality standards will not be compromised. To review the current reporting protocol and timescales for practicalities.	Senior Management Team	May 2014
<p>Planning</p> <ul style="list-style-type: none"> ○ Need more scope / background reasons for inclusion in the plan ○ Need more involvement of staff in the annual planning process 	This has been rectified in the 2014/15 plans.	Audit Services Management Team / Senior Management Team	Complete
<p>Allocation of audit</p>			

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
<p>Is the allocation of audit assignments effective. Are we maximising individuals knowledge and experience.</p>	<p>Matrix working is in place across the partnership to ensure that we maintain flexibility to apportion relevant experience at all times.</p> <p>Not looking to develop “experts” with the notable exceptions of IT, Fraud and Procurement / Contract Management.</p> <p>Any training needs to be raised with relevant managers</p>	<p>All staff</p>	<p>on-going</p>
<p>IT –connectivity at one satellite site remains restrictive.</p>	<p>Head of Southern Internal Audit Partnership to liaise with relevant S151 to effect a long term solution.</p>	<p>Head of Southern Internal Audit Partnership</p>	<p>June 2014</p>
<p>Auditees</p> <p>There are increasing incidences where the duration of audit assignments are prolonged due to client availability both in terms of fieldwork and report clearance. Significant delays in issuing reports can impact on relevance and reflect poorly on the audit service.</p>	<p>Head of Southern Internal Audit Partnership to raise with CMT’s as a general discussion about the impact of delays etc.</p> <p>Formalise an escalation policy.</p> <p>Need to ensure any delays are escalated to the relevant Audit Manager / SMT member promptly.</p> <p>Report template to include timeline</p>	<p>Head of Southern Internal Audit Partnership</p> <p>Senior Management Team</p> <p>All staff / ASMT</p> <p>To align with automated reports from MKI</p>	<p>April – June 2014</p> <p>June 2014</p> <p>Complete</p> <p>June / July 2014</p>
<p>Information extraction</p>			

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
<p>The addition of new partners coupled with the matrix management approach introduces challenges in maintaining a working knowledge of all applications and systems across the partnership.</p>	<p>Look at system training needs across the section and determine who needs what training. (in- house or provided elsewhere.)</p> <p>Identify staff with specific knowledge as contacts for key systems to provide internal training</p> <p>For sites with restricted access to systems consider including a more specific list of required reports etc. in the AO</p>	<p>ASMT</p> <p>ASMT</p> <p>AMs</p>	<p>May 2014</p> <p>May 2014</p> <p>May 2014</p>
<p>Working in silos</p> <p>Look for opportunities for team building – socials, group work etc.</p>	<p>To ensure section briefings include more opportunities for group work.</p> <p>To arrange regular social events outside of work.</p>	<p>Deputy Head of Southern Internal Audit Partnership</p> <p>NJ</p>	<p>June 2014</p> <p>on-going</p>