

SUBJECT:	<b>Internal Audit: Status of Work</b>
MEETING:	<b>Audit Committee</b>
DATE OF MEETING:	<b>17 March 2011</b>
REPORT OF:	<b>Chief Internal Auditor</b>
REPORT DATE:	<b>18 February 2011</b>

<b>1 Opinion definitions</b>
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<b>Opinion</b>	<b>Framework of governance, risk management and management control</b>
Substantial assurance <b>[G]</b>	A sound framework in place that is operating effectively. Some immaterial evidence of inconsistent application.
Adequate Assurance <b>[A1]</b>	Basically a sound framework in place but with recurring evidence of inconsistent application.
Limited assurance <b>[A2]</b>	Critical weakness(es) identified within the framework and / or significant evidence of inconsistent application.
No assurance <b>[R]</b>	Fundamental weaknesses have been identified or the framework is ineffective or absent.
Closed <b>[X]</b>	Management has confirmed that all identified framework weaknesses have been appropriately addressed.

**2 Status of 'live' reports:**

Audit title	Report date	Audit Sponsor	Directorate	Opinion		Original actions	Actions outstanding
				Original	Current	(of which are 'high' priority)	
Payroll	23/03/10	Executive Director of Resources	Resources	<b>G</b>	<b>G</b>	3 (2)	1 (1)
Creditors	31/03/10	Executive Director of Resources	Resources	<b>G</b>	<b>G</b>	5 (0)	2 (0)
Decent Homes	11/05/10	Executive Director of Neighbourhoods	Neighbourhoods	<b>A1</b>	<b>G</b>	7 (1)	1 (0)
Fuel Management and Fleet Workshop	13/07/10	Executive Director, Environment Executive Director, Neighbourhoods	Environment Neighbourhoods	<b>A2</b>	<b>G</b>	14 (6)	1(0)
Data Management – Children Services	05/08/10	Executive Director, Children Services and Learning	Children Services and Learning	<b>A1</b>	<b>G</b>	12 (9)	2 (1)
Hollybrook Junior School	13/09/10	Executive Director, Children Services and Learning	Children Services and Learning	<b>G</b>	<b>G</b>	8 (1)	1 (0)
Application and Software Management	12/10/10	Interim Executive Director of Resources	Resources	<b>A2</b>	<b>G</b>	6 (0)	4 (0)
Network Management and Security	12/10/10	Interim Executive Director of Resources	Resources	<b>A2</b>	<b>A1</b>	17 (0)	10 (0)

Audit title	Report date	Audit Sponsor	Directorate	Opinion		Original actions	Actions outstanding
				Original	Current	(of which are 'high' priority)	
Vermont School	19/11/10	Executive Director, Children Services and Learning	Children Services and Learning	<b>A1</b>	<b>A1</b>	9 (1)	9 (1)
St Johns Primary and Nursery School	22/11/10	Executive Director, Children Services and Learning	Children Services and Learning	<b>A2</b>	<b>A2</b>	5 (2)	5 (2)
Council Tax	13/01/11	Interim Executive Director of Resources	Resources	<b>G</b>	<b>G</b>	3 (0)	3 (0)
Thornhill Plus You	31/01/11	Executive Director Corporate Policy and Economic Development	Corporate Policy and Economic Development	<b>A2</b>	<b>A2</b>	15 (2)	13 (2)
Pathways Financial Payments	08/02/11	Executive Director, Children Services and Learning	Children Services and Learning	<b>R</b>	<b>A2</b>	15 (15)	7 (7)
Creditors	15/02/11	Interim Executive Director of Resources	Resources	<b>G</b>	<b>G</b>	3 (0)	3 (0)
Expense Management	21/02/11	Interim Executive Director of Resources	Resources	<b>A1</b>	<b>A1</b>	13 (0)	13 (0)
Payroll	21/02/11	Interim Executive Director of Resources	Resources	<b>G</b>	<b>G</b>	2 (0)	2 (0)

### 3 Executive summaries of new reports published where critical weaknesses or unacceptable levels of risk were identified:

**Audit title:** Thornhill Plus You (31/01/11)

**Original published audit opinion:** Limited Assurance [A2]

**Current audit opinion:** Limited Assurance [A2]

**Executive summary:**

The forecast for 2010/11 reported that the grant allocated for the year would be fully spent. However, at the time of the audit an amount of £1m remained to be allocated with regard to the under spends and the non approval of use of capital receipts for PYL projects. Due to the relative timescales for project approval assurances could not be given that such funding would be fully reallocated and spent and therefore there is a high possibility that repayment will be requested by CLG on such under spends.

Subsequently, an additional £328k of 2010/11 funding remained unallocated at the time of the audit. Although assurance was provided by the NDC Programme Director that all allocations would be spent by the end of the programme, this could not be substantiated through evidence or approved projects.

Review of the delivery plan for year 10 as published by TPY highlighted that, although the bottom line figure agrees to the finance budget the projects were showing movements. No audit trail was evident to support reallocations, exposing the programme to potential challenge from CLG. Although amounts were not considered material, if they have not been appropriately approved there remains a potential claw back from Southampton City Council as the Accountable Body.

No evidence could be found of any procurement procedures followed in the conduct of projects (other than those lead by SCC) to ensure that value for money was achieved whilst contracting to the best supplier. The Programme Director was of the opinion that this is the responsibility of the projects and therefore TPY would not get involved. However, it is the responsibility of TPY to ensure that the Accountable Body financial and contract procedure rules are adhered to unless CLG guidance supersedes.

The successor bodies require projects to deliver a flow of income to succeed and if non continuation of their activities occurs, there is potential of claw back by CLG and therefore the Accountable Body will be liable. In the absence of appropriate funding agreement letters or legal charge detailing that the Council as the Accountable Body will in turn claw back funds from the projects, the Accountable Body will be liable for repayment.

During the audit no detailed action plan was in place in respect of close down procedures for TPY to ensure a successful handover from TPY to PYL and a clear distinction between assets belonging to PYL and SCC.

Although PYE was trading and the companies set up through PYL were generating income, there is a transitional period between the close of TPY and the approval of the succession strategy which leaves PYL in receipt of only a small revenue stream which will not cover all costs associated with the future demands of the companies. This is in the process of being reviewed; however, no assurances can be provided that contingencies are in place to financially support PYL and PYE to eliminate the claw back risk on the Accountable Body. Post completion of the audit review, PYE ceased trading.

**Management actions and update:**

A management action plan has been compiled to mitigate identified risks

**Audit title: St Johns Primary School (23/11/10)**

**Original published audit opinion:** Limited Assurance [A2]

**Current audit opinion:** Limited Assurance [A2]

**Executive summary:**

Regular budget monitoring by the Admin Officer, the Headteacher and Governors ensured that the school remained within budget. The School Development Plan (SDP) detailed financially appraised action plans for 2009/10; however, only limited monitoring of these cost allocations was performed and reported

Financial processes were performed primarily by the Admin Officer with the Headteacher authorising expenditure where possible, to ensure segregation of duties for income collection and banking was achieved.

Despite this the schools financial controls and procedures were found to be inadequate or absent with regard lettings and charges; income collection and banking; cash security; contract register; purchase orders; invoice administration; imprest account; unofficial account and retention policy

Significant risk of loss and misappropriation was evident with regard schools income as staff on occasions took income home prior to banking.

Additionally no procedures were evident to ensure records were maintained of staff business interests, gifts and hospitality received or formal training attended.

An asset inventory was maintained by the school but was incomplete and evidence of regular checks were not documented. The school has a minibus for school business and although adequate operating policies and procedures were found to be in place there was no control to continuously monitor eligibility of drivers.

**Management actions and update:**

A management action plan has been compiled to mitigate identified risks

#### 4 Internal Audit Performance

Internal Audit has been assessed as fully compliant with the CIPFA Code of Practice by the Audit Commission in their triennial review of the service.

Results from a survey conducted earlier this year demonstrate that management are largely satisfied with the internal audit service and its ability to contribute to the Council's control environment and assist in achieving its objectives.

<b>Survey Question</b>	<b>Response - Good, Very Good or Excellent</b>
How do you rate the service provided by Internal Audit	83.3%
<b>Survey Question</b>	<b>Response - Yes</b>
The internal audit service makes an effective contribution to the Council's control environment?	89.1%
Internal audit is of value and assists the Council in achieving its objectives?	91.5%

#### 5 Planning and Resourcing

With effect from 1 November 2010 Southampton City Council and Hampshire County Council have been working in collaboration to deliver a shared approach for the provision of Internal Audit Services. The agreement introduces a shared Chief Internal Auditor role across both authority's in which three days a week is directed to fulfilling responsibilities at Hampshire County Council and two days at Southampton City Council

Delivery of internal audit services within each of the Council's will remain largely unchanged with two discrete teams operating to exclusive strategic audit plans appropriately aligned to the individual authority's priorities and objectives. Service responsibilities within the Southampton City Council internal audit service have been appropriately realigned to ensure continuity of service; with the Chief Internal Auditor maintaining key strategic responsibilities.

This is a significant opportunity to develop a shared service approach for the provision of the Internal Audit Service generating immediate efficiency savings and potential for the development of future savings through shared resources in areas of expertise including IT specialisms and economies of scale generated through training and development.

**6 Rolling work programme**

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
<b><u>2010/11 Audit Plan</u></b>					
Annual Governance Statement	✓	✓	✓	✓	19/05/10
Hampshire Camera Partnership	✓	✓	✓	✓	24/05/10
Abandoned Vehicles	✓	✓	✓	✓	22/06/10
Bereavement Services	✓	✓	✓	✓	03/08/10
Solent Sea Rescue	✓	✓	✓	✓	09/08/10
Safeguarding – Contact Scheme	✓	✓	✓	✓	13/08/10
General School Review – Holybrook Junior	✓	✓	✓	✓	13/09/10
Main Accounting System	✓	✓	✓	✓	21/09/10
NNDR	✓	✓	✓	✓	05/10/10



Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Sports and Recreation Partnership	✓	✓	✓	✓	06/10/10
Housing Rent and Collection	✓	✓	✓	✓	29/10/10
Thornhill Plus You	✓	✓	✓	✓	21/01/11
General School Review - St Johns Primary School	✓	✓	✓	✓	23/11/10
General School Review - Vermont School	✓	✓	✓	✓	19/11/10
Housing and Council Tax Benefit Administration	✓	✓	✓	✓	15/12/10
Council Tax	✓	✓	✓	✓	13/01/11
Creditors	✓	✓	✓	✓	15/02/11
Pathways	✓	✓	✓	✓	08/02/11
Local and multi area agreement	✓	✓	✓	✓	26/01/11
General School review – St Marks	✓	✓	✓	✓	21/02/11

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Expenses Management	✓	✓	✓	✓	21/02/11
Payroll	✓	✓	✓	✓	21/02/11
Fraud Thematic – Proprietary Checks	✓	✓	✓	✓	
Section 106 agreements	✓	✓	✓	✓	
Sport Development and Active Options	✓	✓	✓	✓	
Debtors	✓	✓	✓	✓	
Intermediate Care	✓	✓	✓	✓	
Provider Services	✓	✓	✓	✓	
VAT Accounting	✓	✓	✓		
Heating Charges (Audit Commission)	n/a	✓	✓		
Housing Management	✓	✓	✓		

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Customer services	✓	✓	✓		
Partnership Governance and Reviews	✓	✓			
Highways futures	✓	✓			
School admissions	✓	✓			
Contract management	✓	✓			
Procurement	✓	✓			
Project management	✓	✓			
Strategic service partnership	✓	✓			
Across School Thematic	✓	✓			
European Funding	n/a	✓			
National Fraud Initiative	n/a	✓			

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued (proposed)
Cash collection and banking	✓				
IS security management	✓				
IS strategy and service delivery	✓				
Internet/e-mail	✓				
Joint Commissioning Standards					
Repairs and Maintenance					
Asset management					
Street Lighting PFI					
Financial Management Standards in Schools	8 of 22 complete (see summary below)				

<b>FMSiS Analysis</b>				
<b>Schools Assessed (2010-11)</b>	<b>Pass</b>	<b>Conditional</b>	<b>Not Achieved</b>	<b>Comments</b>
8	3	5		<p><b>The end of the Financial Management Standard in Schools (FMSiS)</b></p> <p>Michael Gove, Secretary of State for Education, announced [15 November 2010] the decision to end the current Financial Management Standard in Schools (FMSiS) with immediate effect. A simpler standard will be developed as a replacement and is expected to be introduced next year.</p>

**7 Status of 'Live' External Audit**

Audit title	Report date	Audit Sponsor	Directorate	Original actions	Actions outstanding
				(of which are 'high' priority)	
Final Accounts memo	Dec 08	Executive Director of Resources	Resources	5 (1)	1 (0)
Annual Governance Report	Sept 10	Executive Director of Resources	Resources	4 (4)	4 (4)

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
<b>Final Account Memo</b>							
Registration of assets with the Land Registry							
-	The registration of ownership of Land & Buildings with the Land Registry should be continued until completed.	2	John Spiers	Yes	This work is undertaken by Legal Services who have taken on a temporary contract solicitor to undertake the work. The contract will continue as there is still a lot of work to do. The resources portfolio work is now well underway.	Ongoing	Ongoing
<b>Annual Governance Report 2009/10</b>							
Record of electricity meters in dwellings							
-	Review the record of electricity meters and implement a more effective database and system of controls.	3	Utilities Manager Decent Homes	Yes	Work is underway to trial new software for the monitoring and estimating process of the utility supplies. It is a dedicated database for the utility market and will hold all site information and enable estimates to be established more easily in the future and the monitoring of information to continue. Access has been arranged for Council staff to use this software on a sample of data to review its capabilities. If deemed	Apr 11	The trial of the new software has been undertaken <ul style="list-style-type: none"> <li>• First impressions are good</li> <li>• Minor issues to be clarified by supplier</li> <li>• Offers advances over existing spreadsheets</li> <li>• Increase data analysis and recording</li> </ul>

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
					suitable and appropriate the aim is to have this software operational for the start of the new financial year.		<ul style="list-style-type: none"> <li>Improve financial monitoring and forecasting</li> </ul> <p>Next Steps</p> <ul style="list-style-type: none"> <li>Carry out parallel running between the two systems between March and June</li> <li>Full running of the software from July onwards</li> </ul>
	Confirm the designation of electricity meters.	3	Utilities Manager Decent Homes	Yes	In January 2010 there were circa 2,500 meters, this is a constantly changing figure as meters are removed and added. Of these 2,500 meters we are actively working on a small minority (57) of these with SSE to determine whether these are in operation or have been removed, any funds paid on account on these meters can easily be removed from the heating account if subsequently they are found not to be in place. There are 665 meters that are known to exist but the designation needs to be confirmed by visually checking the cabling to these meters and determining whether these are communal heating or lighting supplies. The investigatory work to check these 722 sites has	Oct 10	Verbal update to be provide at Audit Committee



Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date	Progress / Update
					commenced and the data collected including serial numbers and readings will be used to update records. This has been requested to be completed by the end of October with any problem areas being addressed during November 2010.		
	Establish the extent of the errors in meter records and whether it is possible to assess the impact on past charges to tenants and leaseholders.	3	Utilities Manager Decent Homes and Corporate Finance	Yes	Following the outcome of the meter review the number of errors will be known and this can be used to establish any possible financial impact	Dec 10	Analysis underway - to be finalised following completion of the meter survey.
	Review the record of gas meters to determine if there are similar weaknesses in these records and how improvements can be made.	3	Utilities Manager Decent Homes and Housing Finance Support	Yes	Each gas meter is within a tenants home therefore if we do not gain access to the home we cannot receive an actual read/bill and rely on estimates. As we carry out a gas safety check on all properties annually we will instruct our engineers to complete a serial number and meter readapt that point and this will be passed to our gas supplier for invoicing purposes. Each gas meter is within the tenant's property, therefore there is not the same potential of incorrect allocation of heating costs as with electric meters	Apr 11	Ongoing