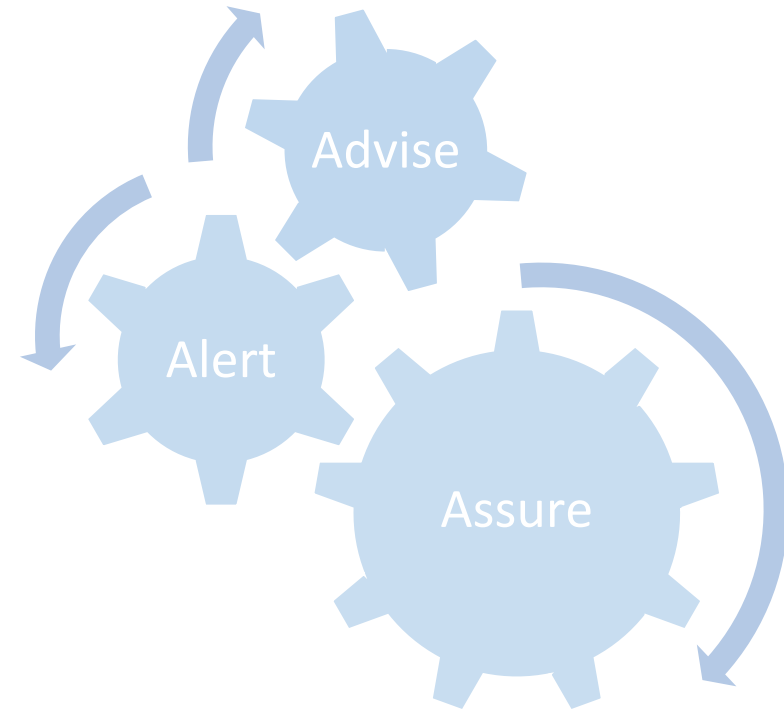


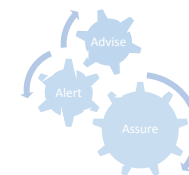


Southampton City Council -  
Annual Audit Report  
2017/18

Elizabeth Goodwin

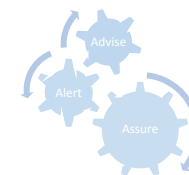
Chief Internal Auditor





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## Background

### Public Sector Internal Audit Standards

On 1<sup>st</sup> April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced. The Standards were revised from 1 April 2016 to incorporate the mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.

The Accounts and Audit Regulations 2015 Section 5, define the requirement for an internal audit function within Local Government stating that:

'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'

The responsibility for maintaining an adequate and effective system of internal audit within Southampton City Council lies with the Service Director for Finance & Commercialisation (S151 Officer).

The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the '*Definition of Internal Auditing*', the '*Code of Ethics*' and '*the Standards*'.

In accordance with the PSIAS the definition of internal auditing is;

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.



In addition the Chief Internal Auditor will provide an Annual Internal Audit Opinion based on an objective assessment of the Authority's framework of governance, risk management and control.

The Annual Internal Audit Opinion must incorporate;

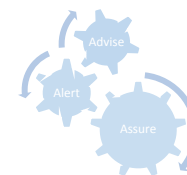
- The Opinion;
- A summary of the work that supports the Opinion; and
- A statement on conformance with PSIAS and the results of the quality assurance and improvement programme.

### **Statement of Organisational Independence**

The Internal Audit Section has no operational responsibilities for any financial systems, including system development and installation. It does however provide advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.

The Chief Internal Auditor is free from interference, although has due regard for the Authority's key objectives and risks and consults with members and officers charged with governance, when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be and is no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.

The Internal Audit Section has free and unfettered access to the s151 Officer, Chief Executive, Monitoring Officer the Leader of the Council and the Chair of the Governance Committee.



## Annual Opinion - Limited Assurance

With effect from the 1<sup>st</sup> April 2017 and in partnership with Portsmouth City Council an in house team to provide audit service has been established. An Audit Manager was appointed from August 2017 with two auditors joining the team in September 2017. Whilst recruitment took place Portsmouth City Council provided support resources to undertake a variety of reviews. This will continue into 2018-19 and potentially beyond, until Southampton City Council has a full complement of staff and skills mix in order to deliver the annual audit plan. The role of Chief Internal Auditor is provided under a shared arrangement with Portsmouth City Council which sits outside of this arrangement.

Over the course of the year the audit service completed 45 full audits, the results of which show a change from the previous year, end of year findings. 49% of audit performed during 2017-18 have a risk rating of 'limited' assurance compared with 21% from the 2016-17 results. The change in service, specifically the onsite audit team presence, use of data analytics and depth & breadth of the independent testing is considered to be the main factor in this, not that the Authority has had a dramatic decline in its ability to maintain an effective internal control environment.

Four audit opinion levels are in place and these are: no assurance, limited assurance, reasonable assurance and full assurance.

Where there are mainly medium or low risk exceptions the annual audit opinion would be reasonable or full assurance. As a result of the findings identified the audit opinion for 2017/18 is that limited assurance can be provided that the framework of governance, risk management and control at Southampton City Council is effective.

No Assurance	<b>Limited Assurance</b>	Reasonable Assurance	Full Assurance
--------------	--------------------------	----------------------	----------------

In forming this opinion two areas of concern should be noted; the first is the high level of non-compliance to policies across the Council and the second relates to the number of fragmented systems that span more than one directorate and result in gaps in expected controls to mitigate risk exposures. The specific details are expanded further under 'key areas of concern'. Internal Audit will work with the Chief Executive, Service Directors and Service Leads to improve on specific areas of control, risk management and governance weaknesses.

Any significant corporate weaknesses and agreed actions will be reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2017/18 may affect that year's work for External Audit. It may also inform their work for 2018/19 and where they consider there are weaknesses in control that could materially affect the accounts they may need to carry out further work to gain the necessary audit assurance required for a true and fair view of the financial position and compliance with professional codes of practice.



## Key areas of concern

The key areas of concern as noted in the annual opinion predominately focus around the lack of compliance across the authority to internal policies, and statutory requirements. This was identified in a number of audit reviews throughout the year, some of which are noted below as examples;

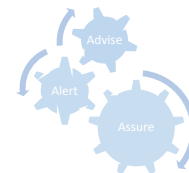
- Travel & Subsistence, non-compliance with internal policy was identified relating to evidence to support expenditure incurred, this issue was also identified in Purchase Cards.
- Tower Blocks, non-compliance with internal procedures relating to the inspection program
- Deprivation of Liberty, non-compliance with statutory timescales

In addition to this Southampton City Council operate where a number of activities are delivered by more than service. i.e within more than one directorate. The impact noted is that specialist skills are not always being utilised and the quality of working practices varies along with risk exposure. These issues were noted in, but are not limited to the following audits;

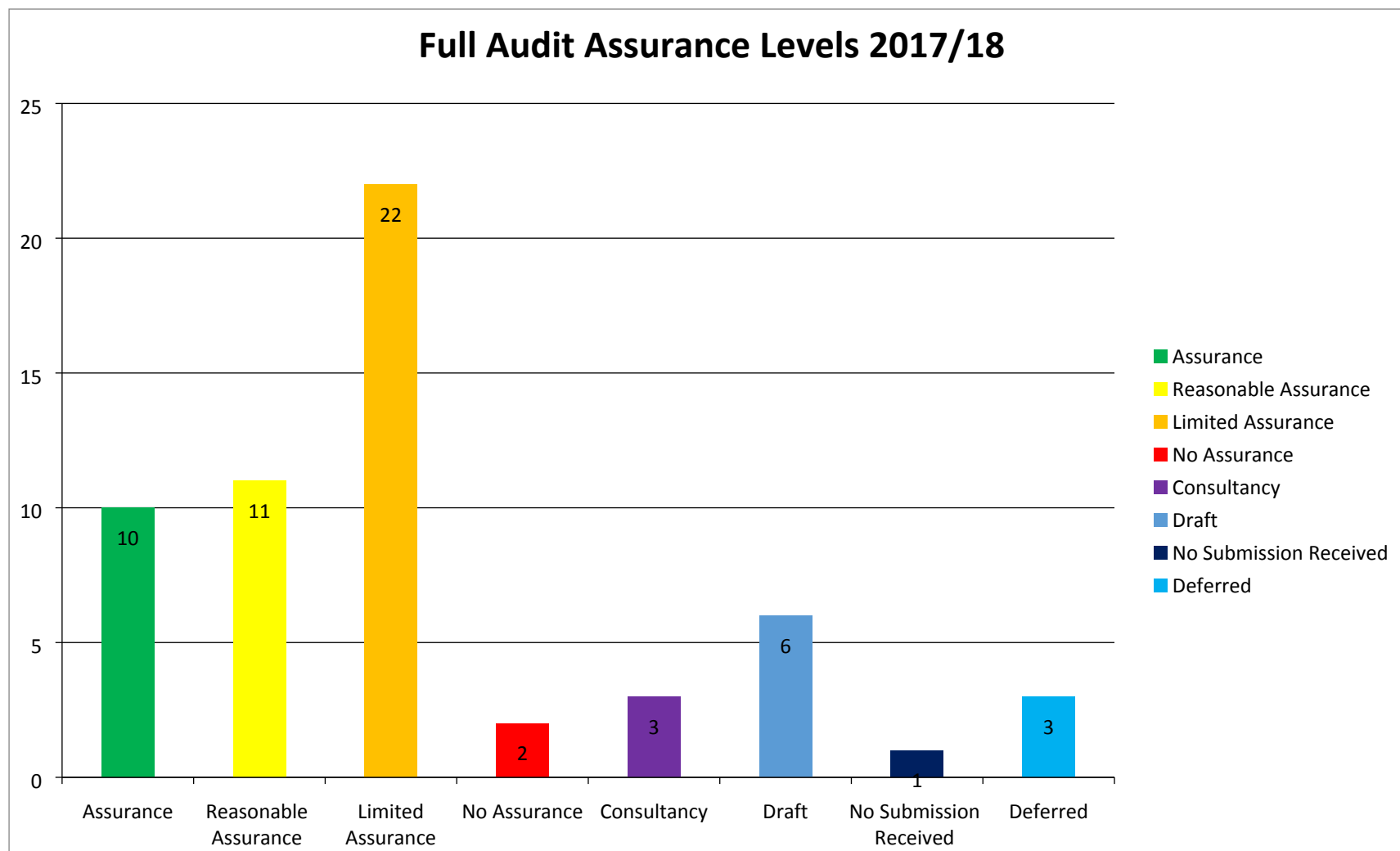
- Water Quality
- Asbestos

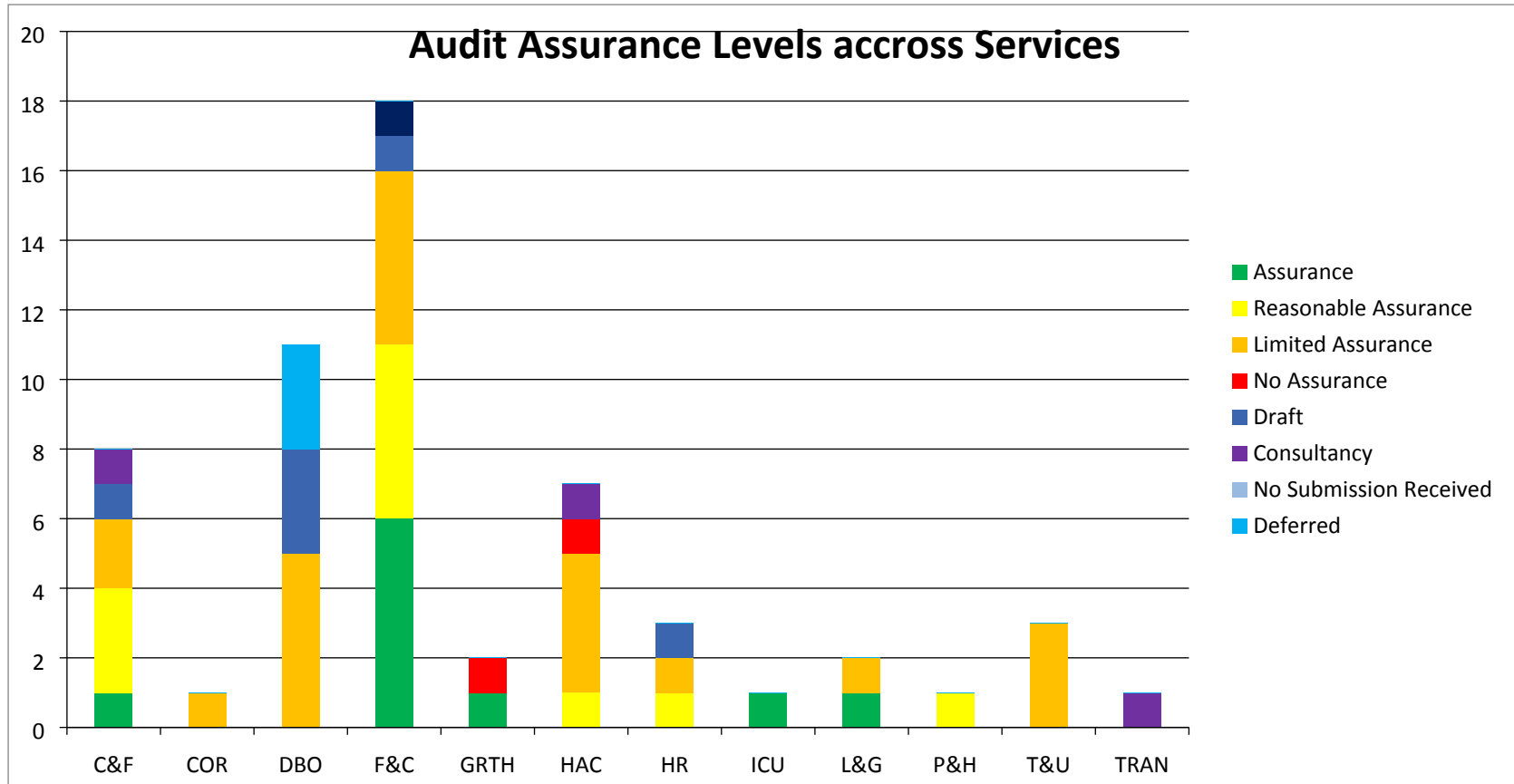
Two reviews, British Gas and the Arts Complex (Studio 144) raised historic concerns over the lack of corporate oversight and weak governance, further work will be undertaken during 2018-19 to ascertain whether arrangement currently in place are sufficiently robust to ensure that risk exposure is adequately mitigated moving forward.

All findings have been reported to the Governance Committee and separately to senior management, namely the Interim Chief Executive and relevant Service Directors. Discussions have also been held with External Audit.

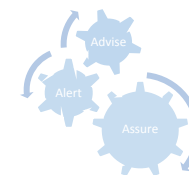


## Results of the work carried out against plan for 2017-18

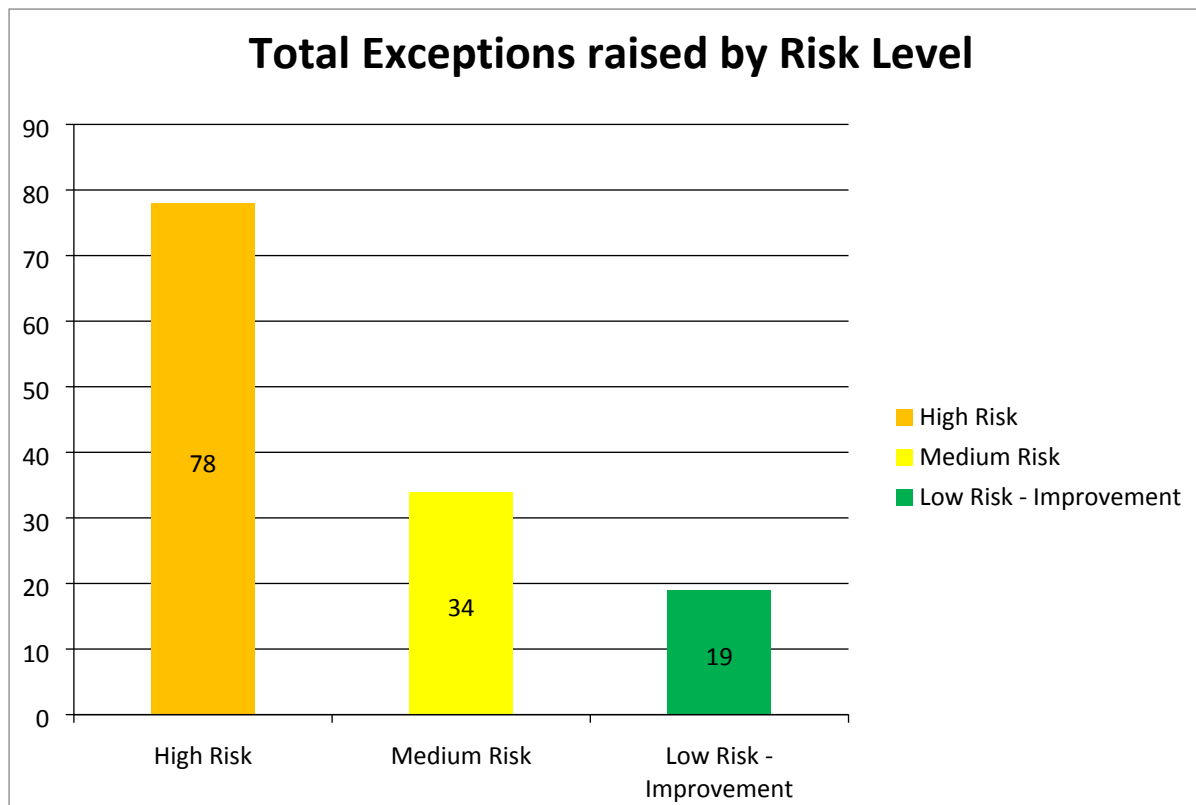


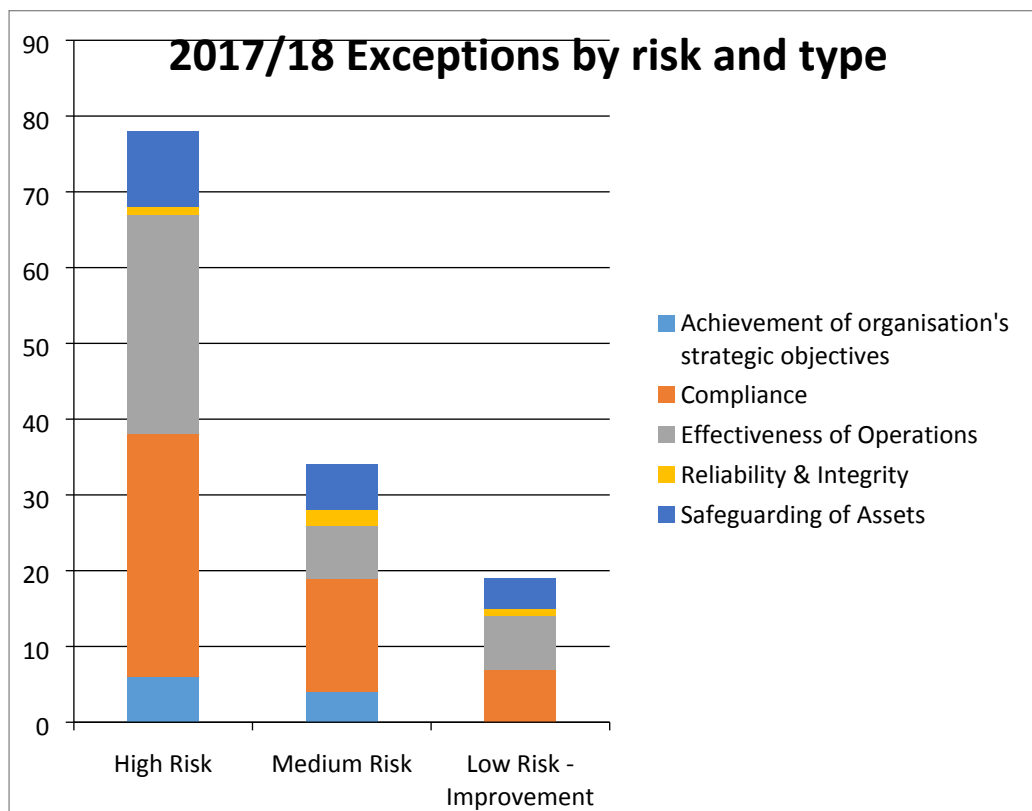
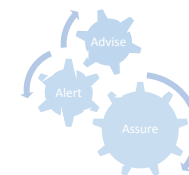






## Exception Analysis





Risk	Achievement of organisation's strategic objectives	Compliance	Effectiveness of Operations	Reliability & Integrity	Safeguarding of Assets	Grand Total
High Risk	6	32	29	1	10	78
Medium Risk	4	15	7	2	6	34
Low Risk - Improvement		7	7	1	4	19
<b>Grand Total</b>	<b>10</b>	<b>54</b>	<b>43</b>	<b>4</b>	<b>20</b>	<b>131</b>



## Additional Information

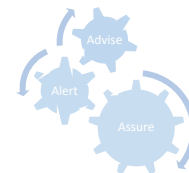
Three of the audits included in the 2017-18 audit plan resulted in consultative work being undertaken in place of an audit review, these areas are noted below for information.

**Direct Payments:** Following receipt of a 'No assurance' audit and service known concerns, Southampton City Council instigated a complete review of the DP process; this has included engagement with service users and support services under an intensive care assessment. Whilst progress has been made the new system is yet to be implemented with further work to be undertaken. An audit was scheduled to be undertaken in Q3/4 as the new system was anticipated to be in place by November, however due to the aforementioned delay no audit review has been carried out. An Audit of new system for Direct Payments will therefore be carried out during 2018/19 as part of the annual plan of audit activities.

**Local Authority Trading Company:** Internal Audit was invited to a number of forums and has held discussions with key individuals regarding the development of LATC. As there are no areas currently to review, it has been agreed that Internal Audit will, as part of the 2018/19 annual plan, carry out system reviews on all activities due to be transferred and prior to them moving across in order to provide assurances that the processes in operation are working efficiently.

**Short Breaks:** A review of the short breaks process was due to be conducted as part of the 2017/18 audit plan. Short Breaks provide children and young people with disabilities or additional needs an opportunity to spend time away from their parents, engage in fun activities and enjoy time with their friends. However discussion with the SEND Manager identified that processes were due to be changing.

"The current approach does not provide effective support based on need, has eligibility criteria that are unfair and inequitable and does not meet the legal requirements of delivering social care assessments and access to services based on need. The proposals are to introduce new eligibility criteria based on 4 levels, applying a needs based approach, introduce a new Short Breaks offer linked to the 4 levels and procure services for a 5 year period so that services can be delivered over the medium term with a degree of security."



Based on the above information, Internal Audit was consulted on the proposed process moving forward and it was agreed a full audit will then be completed in 2018/19 plan.

In addition to the areas noted above, Internal Audit included in the 2017/18 Audit Plan the verification of the '**Local Transport Capital Block Funding Grant**', as at the date of this report no submission has been presented for verification.

## Deferred Audits

Three audits from the 2017-18 audit plan have been deferred to the 2018-19 audit plan, these are as follows:

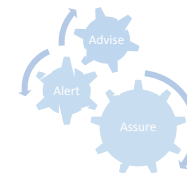
**Partnerships:** This audit has been deferred due to resourcing issues within the team and the unplanned absence by the member of staff undertaking this work.

**IT Telecommunications & Mobile Devices:** These two audits were combined and in fieldwork awaiting documents and supporting evidence, unfortunately the service was not in a position to provide the data required within the timeframe for an audit assessment and end of year reporting. In discussions with the Service Director and Chief Internal Auditor it has been agreed that the audit will therefore be performed during 2018-19.

## Audits Outstanding - In Draft

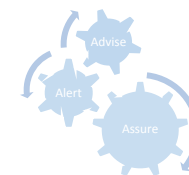
There are six audits with overall opinions yet to be determined, although likely to span limited or no assurance pending final evidence submission, that are currently in draft. These audits are taking longer than anticipated to close, however it is important that all audit findings reported are accurate and reflect the position of the authority, as at time of testing. They will remain in draft pending completion and will be reported at the September 2018 meeting.

- Procurement & Contract Framework (two audits merged into one)
- Leisure Contract
- Accounts Payable



- Health & Safety
- Children's Safeguarding

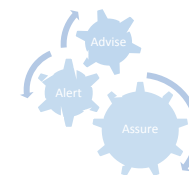
The results of these audits are not likely to change the annual opinion.



## Unplanned reactive work

For the period 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018, Internal Audit has 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.
- Direct Payments - The Audit Manager has been attending regular workshops regarding the changes proposed in the Direct Payments process. The purpose was to provide advice on risks and controls on changes to the current process.
- Pest Control - A review of the processes for this service was undertaken where the Internal Audit service acted in a consultative capacity. A full audit has subsequently been factored into the 2018-19 audit plan.
- Housing Operations - Advice was sought in relation to the control surrounding obsolete stock.
- Travis Perkins – Audit was contacted directly by Travis Perkins to investigate the use of their Purchas Cards by SCC tradespersons. The use of these cards needs to be compliant with SCC Procurement rules and also in line with the current contract that the Council has in place with Travis Perkins for the provision of materials. Advice has been given to the relevant Service Manager in Housing and also discussions held with the Service Lead – Supplier Management.



## Public Sector Internal Audit Standards

### **Background**

Under the Public Sector Internal Audit Standard (PSIAS) 1310 requires that, as part of the quality assurance and improvement programme internal and external assessments (of conformance with the Standards) must be undertaken. Standard 1311 allows for periodic self-assessments, which for Southampton City Council has been carried out for the first time under the arrangement for the provision of the service. The results of the 2017-18 self-assessments show that the in-house service is compliant.

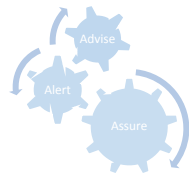
Standard 1312 requires that an external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Standards state that a qualified assessor demonstrates competence in two areas; the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. An independent assessor means not having an actual or perceived conflict of interest and not being part of, or under the control of, the organisation to which the internal audit activity belongs. As the Southampton City Council's audit provision is provided by a mixture of in-house supported by Portsmouth City Council (PCC) the results of PCC's 2017-18 external assessment are shared below.

### **Introduction**

The Public Sector Internal Audit Standards, updated April 2017, state that "A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector."

The Relevant Internal Audit Standard Setters (RIASS) (as recognised by the Account and Audit Regulations) for local government across the UK, is the Chartered Institute of Public Finance and Accountancy (Cipfa).

These common set of Public Sector Internal Audit Standards (PSIAS) encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).



The Standards include a Code of Ethics covering:

- Integrity
- Objectivity
- Confidentiality
- Competency

The Standards cover 11 key areas:

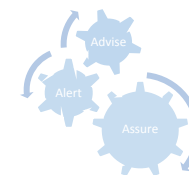
- 1000 Purpose, Authority & Responsibility
- 1100 Independence & Objectivity
- 1200 Proficiency & Due Professional Care
- 1300 Quality Assurance & Improvement Programme
- 2000 Performance Standards- Managing the Internal Audit Activity
- 2100 Performance Standards- Nature of Work
- 2200 Performance Standards- Engagement Planning
- 2300 Performance Standards- Performing the Engagement
- 2400 Performance Standards- Communicating Results
- 2500 Performance Standards- Monitoring Progress
- 2600 Performance Standards- Communicating the Acceptance of Risks

### **Scope**

The scope of the review performed at Portsmouth was agreed with the Monitoring Officer, Director of HR, Legal and Performance, s151 Officer and the previous chair of the Governance & Audit & Standards Committee (GAS) and was as follows:

- Evidence that the Internal Audit & Counter Fraud Service at Portsmouth City Council (PCC) complies with current Public Sector Internal Audit Standards, including the Code of Ethics; by evaluating:
  - Relevant documentation





- Discussions with the Chair of the Governance & Audit & Standards Committee, Senior Management (including the CX, s151 and Monitoring Officers and Director of HR & Performance), external audit and members of the Internal Audit Staff

## **Findings**

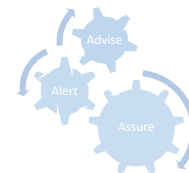
It was found that the service complies with all the Standards and Code of Ethics with the following three exceptions:

- (a) Standard 1100 requires that the Chief Internal Auditor (CIA) confirms annually to the board (GAS) the organisational independence of the internal audit activity. Although the Charter and Strategy affirm the definition of Internal Audit, reports to the GAS do not specifically refer to audit independence as an on-going assurance and this could be included as part of the Annual Audit Opinion.
- (b) Standard 1110 (public sector requirements) states that the Chief Executive undertakes, countersigns, contributes feedback or reviews the performance appraisal of the CIA and that feedback is also sought from the Chair of the G&A&S. currently there is no input from these sources. An annual PDR (Performance Development Review) is undertaken by the Director of HR, Legal and Performance as the Chief Internal Auditor's line manager. The Director of Finance and s151 Officer as the main client of the Service and the Deputy Chief Executive and Monitoring Officer as another key client, will be asked for feedback as part of the PDR process.
- (c) Standard 1320 requires that the CIA must report the results of the quality assurance and improvement programme to senior management including conclusions and any corrective action and include in the annual report to the board (GAS). Whilst there is evidence of day to day supervision and measurement of activity achieved to planned, there is no formalised assurance programme to demonstrate on going improvement which could include a stated aim of a quality assurance programme to demonstrate the efficiency and effectiveness of the IA activity. This could be included as part of the Audit Strategy or Charter reports to G&A&S.

Discussions with the Deputy Chief Executive and Monitoring Officer, the Chief Executive as Head of Paid Service, the Chair of the Governance and Audit and Standards Committee, the Director of HR and Performance and the External Auditor for PCC (Ernst & Young) demonstrated that the IA Service is highly regarded as professional, is trusted to inform and alert senior management and the GAS to significant matters, in a timely fashion and delivers on its purpose.

There were a number of areas of good practice identified namely:

### **Audit Management**



- The Audit skills gap analysis,
- Management of individual performance,
- The audit universe risk assessment,
- Team Mate electronic files and processes

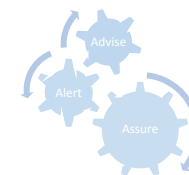
### Contribution to good governance

- The use of a Corporate Governance Group, consisting of The CX, Deputy CX, Directorate of Finance, Director of HR, Legal & Performance and the CIA which meets regularly to discuss matters of governance,
- The monthly meetings the CIA has with the s151 Officer,
- Ad-hoc meetings between the CIA and Chair of the Governance and Audit and Standards Committee,
- The Investigation Steering Panel consisting of the deputy CX as monitoring Officer, the Director of Finance as s151 Officer and the Director of HR, Legal & Performance, the Deputy CIA and the Internal Audit Counter Fraud Officer which determines the investigation of any suspected fraud in accordance with the Counter Fraud Policy and Response Plan,
- Assurance Mapping- whilst this is still in its infancy it is a good start and will hopefully enable a wider Annual Audit Opinion to be given using the whole of the organisation's assurance framework.

### Conclusion

It is considered that whilst it is important to action the three areas of non-compliance, it has not had a significant impact on the overall ability of the Internal Audit and Counter Fraud Service at PCC to deliver the Service as specified by their Charter and Code of Ethics. They can demonstrate that they deliver a professional, independent and objective activity that contributes to the good governance of the organisation and are able to deliver an annual audit opinion in accordance with the Standards.

Resources in delivering the contracted services have reached capacity at a management level. The organisation may wish to review the current provision as a whole and the hierarchy, if it wishes to expand the Service and their current contracts; with a view to ensuring that income is equitable, sufficient and sustainable and that risks are shared equally amongst the contracted organisations.



## Progress Report 2017/18 Update 30<sup>th</sup> May to July 18<sup>th</sup> 2018

Project Name	Hub	Opinion	No. Critical Risk	No. High Risk	No. Medium Risk	No. Low Risk	Summary of high risk exceptions
DBO – Disaster Recovery Business Continuity	Operations	Limited Assurance	-	4	-	-	Four high risk exceptions relating to the current DR contract not encompassing all systems and there being a gap between service IT expectations within their business continuity plans and what is provided in an emergency under the DR contract. Furthermore, there is no finalised business continuity plan for Digital and Business operations and the cyber security policy does not set out how the authority would deal with a cyber security incident should it occur.
C&F – Out of City Placements Special Education Needs	Operations	Limited Assurance	-	3	-	-	Three high risk exceptions relating to there being no current EHC Plan for 3/10 pupils, no policy or guidance for identifying how placement payments are split across budgets and the ability for creditors to bypass the SEND team’s check for accuracy before payment of placement invoices.
F&C - Financial Management	Strategy	Reasonable Assurance	-	-	-	2	No high risk exceptions.
F&C - Annual Governance Statement	Strategy	Reasonable Assurance	-	-	1	-	No high risk exceptions.