

South Essex Homes Limited

Report of the Head of Internal Audit
to

Audit Committee

on

16 May 2016

Report prepared by: Linda Everard

Agenda Item No.

Head of Internal Audit Annual Report 2015/16

A Part 1 Public Agenda Item

1 Purpose of the Report

- 1.1 To provide, for the 2015/16 financial year:
- the rationale for and an audit opinion on the adequacy and effectiveness of South Essex Homes (the company's) risk management, control and governance processes
 - a statement on conformance with the UK Public Sector Internal Audit Standards (the Standards) and the results of the Quality Assurance and Improvement Programme.

2 Recommendations

2.1 The Audit Committee:

- **accepts the Head of Internal Audit's Annual Report for 2015/16**
- **satisfies itself that the contents of this report are appropriately reflected in the company's Annual Governance Statement.**

3 Background

- 3.1 The Head of Internal Audit's Annual Report and Opinion provides the company with an independent source of evidence regarding both the design of its risk management, control and governance framework and how well it has operated throughout the year.
- 3.2 The company is not required to produce a Governance Statement for its own purposes. However as a wholly owned subsidiary, it is required to provide Southend-on-Sea Borough Council (the Council) with evidence of the robustness of these arrangements in support of the disclosures it needs to make in its Annual Governance Statement.
- 3.3 The opinion is predominantly based upon the audit work performed during the year as outlined in the risk based Audit Plan agreed with the Executive Management Team and the Audit Committee.
- 3.4 As outlined in the Internal Audit Charter, audit coverage is determined by prioritising the significance of company's activities to its ability to deliver its Aims.

This is done:

- using a combination of Internal Audit and management risk assessments (including those set out in risk registers)
- in consultation with Group Managers, Directors and the Chief Executive, to ensure the work is focused on key risks.

3.5 At least, six monthly meetings are then held with the Chief Executive and Directors to:

- reflect on the original risk profile and work planned
- determine whether any changes are required to it or the Audit Plan.

Organisationally, this reflects a very mature approach to operating an internal audit function.

3.6 All individual audit reports are presented to the Audit Committee having first discussed and agreed them with the relevant Group Manager, Director and or the Chief Executive.

4 Head of Internal Audit Opinion for the year ended 31 March 2016

4.1 ***Overall, the design and operation of the company's risk management, control and governance framework was satisfactory throughout the year, with the opportunity to strengthen these arrangements in some areas.***

Particular focus has been given by the company, to further developing the processes for managing the Careline service and the Door Entry Service and Repair Contract.

4.2 **The basis for forming this opinion is an assessment of:**

- the design and operation of the underpinning governance and assurance framework
- the range of individual opinions arising from risk based and other audit assignments that have been reported during the year taking into account the relative significance of these areas
- whether management properly implement actions arising from audit work completed, to mitigate identified control risks within reasonable timescales.

4.3 The Head of Internal Audit has not reviewed all risks and assurances relating to the company's activities in coming to her opinion.

5 Supporting Commentary

5.1 **Appendix 1** summarises the audit opinions from each audit completed this year. It should be noted that this is the first year where four instead of three audit opinions have been used. The previous "adequate" assurance category has been split into two, i.e. satisfactory or partial assurance, to enable a more accurate view to be given on how well a service or process is operating.

The following paragraphs then:

- summarise the findings from this audit work
- highlight some of the areas requiring improvement

- expand on how assurance obtained from other relevant sources has been used to support the overall opinion.

Where necessary, actions have been agreed with officers improve the arrangements where serious control issues were identified during the audits.

Governance and Assurance Arrangements

- 5.2 The company's arrangements for **safeguarding** vulnerable people were satisfactory and based upon a safeguarding framework agreed by Southend-on-Sea Borough Council, Essex County Council and Thurrock Council. This was supported by a clear framework of policies, procedures and reporting processes to be used should a concern be identified by staff or contractors. These now need to be subject to regular review and approval to ensure they remain relevant.

Staff were properly vetted before they are employed. Arrangements needed to be established to ensure staff update Disclosure and Barring Service (DBS) checks when they become due. Safeguarding training was provided both at induction and then tri-annually, targeted to deal with safeguarding issues that have been reported. Attendance needs to be made mandatory and action taken when staff don't attend the required sessions.

The company needs to develop processes to satisfy itself that each contractor used, has appropriate safeguarding arrangements in place that are applied consistently by its staff. This should be achieved through both the contract letting and monitoring arrangements.

Action was required to ensure the Safeguarding Referrals spread sheet contains the most up to date information regarding each case.

- 5.3 The Local Government Ombudsman (LGO) has stated that actions of any firm contracted to provide a service should be treated as actions of or on behalf of a Council. The LGO urged all councils to consider how they integrate their **complaints** policies into contracts with external companies, to make sure:

- complaints are dealt with effectively
- the Council maintains oversight of them.

Given the company's relationship with the Council, it should consider how to integrate this into its own arrangements.

A Complaints Policy was being produced and the current procedures refreshed to ensure they were still fit for purpose. Otherwise, the complaints process was well designed and managed.

- 5.4 Other assurance has also been taken from the:

- performance and effectiveness assessments completed by the Audit Committee
- arrangements established to validate the Management Assurance Statement assessments.

(Refer to the Audit Committee Annual Report)

Service Risks and Key Financial Systems

- 5.5 The **residential leaseholder** framework complied with statutory requirements and the calculation of both estimated and actual service charges, which are recharged to leaseholders, was well documented.

Action was being taken to:

- ensure the core standing data in the Leaseholder Details spreadsheet was accurate and complete (as a one off exercise)
- restrict access to the cells containing this standing data, thus making it more secure and reliable
- improve the arrangements for highlighting any potential maintenance costs that would be above £250, as it is necessary to consult with leaseholders before they are incurred if the costs are to be fully rechargeable
- redesign the operational processes for identifying which version of the Right to Buy lease (there have been nine so far) each leaseholder had been issued with, which is critical when calculating recharges.

This will help ensure that the leaseholder recharges are correct and the Council fully recovers such monies due.

- 5.6 Management were determining what performance information was required, how often and in what format in order to enable the **Careline service** to be monitored more effectively. Staff training needs and how individual performance monitoring is undertaken, was also being revisited.

Although the disaster recovery procedure had been implemented successfully during system failures, a formal testing programme will be implemented going forward. A more standard way of documenting these incidents was being developed so lessons can be learnt from these events.

Arrangements for managing the contract with Tunstall, who maintain the Careline units, were being actively strengthened.

Action had already been taken to review what operating costs should be included in Careline's budget. As a consequence, the company had revised customer charges to cover increased costs and bring them in line with other Careline services delivered locally. It had also reviewed its approach to marketing this service more widely.

A procedure note was being developed to help staff ensure annual battery discharge testing was undertaken properly and monitored effectively. A stock holding and ordering policy was also being introduced.

- 5.7 The services required were clearly set out in the **Door Service Entry and Repair Contract**. However, the arrangements for managing it needed strengthening significantly.

Guidance was to be provided for staff managing contracts, supported by appropriate training that sets out the company's expectations regarding the:

- level of targeted and proportionate checks required before signing off work
- monitoring arrangements required in order to ensure contract terms are being complied with.

Key to improving these arrangements was to proactively use the contract to manage service delivery. This would ensure that:

- changes to contract terms are dealt with using variation orders
- all properties are being visited and properly serviced
- responsive repairs are dealt with in a timely manner
- the contractor uses appropriately skilled and experience staff to do the work
- the right quality materials are used and the uplift for non scheduled materials is being properly applied
- regular and targeted post work inspections are undertaken
- more robust checks are undertaken before payments are made to confirm works orders are appropriate and have been properly approved
- contractor performance is discussed regularly and issues are recorded and dealt with.

Monitoring actual spend against budget for all Property Services team contracts, was done through an insightful monthly report produced from the iWorld system. However, more thoroughly documented reconciliations must be completed with all inconsistencies investigated, for senior management to be able to fully rely on this.

- 5.8 The purpose of **key financial systems** work was to provide assurance as to whether controls were in place to effectively prevent or detect material errors on a timely basis, so that this information could be relied upon when producing the company's and Council's financial statements.
- 5.9 Overall, satisfactory arrangements were in place regarding the **Housing Rents system**, to both raise and then collect rental income from Council house tenants. The element of the system managed by the company was well controlled. Going forward, tenancy terminations will be independently checked each month to ensure they are valid.
- 5.10 There were good arrangements in place to ensure the company's **Treasury Management**:
- Policy and reporting process comply with good practice guidance
 - transactions are properly authorised and supported by appropriate evidence to confirm their validity.
- 5.11 With regards to the **Accounts Payable system**, the arrangements operated by the company provided a high level of assurance that payments made were accurate, complete and appropriate.
- Action was being taken to strengthen the process for evidencing that independent checks were undertaken before supplier details were amended.
- 5.12 The company uses the Council's **Payroll system** to pay its staff which is reliant on manual checks to ensure the accuracy and completeness of its records. The planned improvement of the Agresso payroll module and supporting operational processes will significantly strengthen these arrangements, and is planned for implementation in September 2016. Therefore, the key areas where improvements are still required include:

- ensuring the company's establishment list of employee posts reconciles to HR and Payroll records
- improving the consistency of the documentation that demonstrates the annual uplift to the Payroll system was properly tested to ensure its accuracy before the changes were made live on the system
- strengthening controls over making amendments to Payroll records
- ensuring BACs payment runs are complete, accurate and appropriately authorised prior to payments being made
- validating the accuracy and authorisation of:
 - overtime payments
 - payments made to Her Majesty's Revenues and Customs.

5.13 The company also uses aspects of the Council's **Income, Receipting and Banking** system, which was operating well. This provided assurance that income received was being banked and properly posted to the Rent system.

Implementing Action Plans

5.14 Actions are proposed to address internal control weaknesses identified during all audit reviews. When implementation dates have past, Internal Audit retest to ensure the agreed action has taken place and is being applied consistently where the opinion was partial or minimal. Going forward, management will be providing the Audit Committee with this assurance where high or satisfactory audit opinions are given.

5.15 The original **Allocations** audit assessed whether there were adequate processes and procedures in place to re-let empty properties efficiently and in a timely manner in line with the Council's expectations.

Good progress had been made to strengthen these arrangements. As a result:

- evidence had been provided of the validity of new tenancies processed since the Tenancy and Rent teams merged in 2014
- the process for verifying the identify of prospective tenants and evidencing the letting process had been improved
- there was proactive monitoring of key void milestones to ensure properties were reallocated at the earliest opportunity.

Action was being taken to independently validate, on a regular basis:

- all cases where one person had been involved in terminating a tenancy and then creating a new tenancy / rent account
- that all properties had actually been advertised or were approved direct lets / mutual exchanges.

The draft Tenancy Incentive Scheme procedure notes were also being amended to clarify how tenants will be contacted, where the response will be recorded and who needs to be informed should the tenancy change.

The company will also discuss with Counter Fraud & Investigations Directorate, how best to better mitigate the risks relating to identity fraud when allocating Council properties, as part of the Allocations pilot exercise.

- 5.16 The original **Information Management** audit assessed whether the company's information is used and managed effectively.

The company had made good progress in addressing issues raised where it was possible to do so. Some issues cannot be progressed until the Council's upgrade of Civica (now planned for 2016/17) has taken place. These relate to:

- developing a work flow on Civica for the management of leaseholders
- undertaking post implementation reviews of IT software amendments / upgrades
- enabling the archiving / deletion module in line with the Document Retention Policy.

The Document Retention Policy was to be updated to include guidance on the treatment of hardcopy documents once scanned, electronic documents and entries deleted from the Potential Risks Register.

The company also needs to seek assurance from the Council regarding how it will ensure that only appropriate people are granted access to HR and Payroll module on Agresso, as this also provides access to company data.

6. Conformance with Professional Standards

Head of Internal Audit Opinion

- 6.1 ***The service has substantially conformed to the relevant professional standards throughout the year.***

There continues to be a high level of compliance with the requirements of the CIPFA Statement on the Role of the Head of Internal Audit.

Audit Plan 2015/16

- 6.2 92% of the Audit Plan (all audits except one) has been delivered against a target of 100%. Nevertheless, sufficient work has been delivered to enable the Head of Internal Audit to give her annual audit opinion (**refer Appendix 2**).

The fieldwork on the remaining audit is being completed and the report will be issued in June 2016.

Other Performance Indicators

- 6.3 The service had a performance target this year of issuing draft reports to clients within 15 working days following the final meeting with officers to feedback on work done. Unfortunately this requirement has not been met in the latter part of the year due to changes in the mix of staff resources available to the team.
- 6.4 During the year, the service revised its approach to obtaining feedback from stakeholders at the conclusion of audits so it focused more on obtaining evidence of compliance with some of the less tangible elements of the UK Public Sector Internal Audit Standards (the Standards).

The key message from the surveys undertaken is the need for there to be a more seamless service regardless of whether work is undertaken by the in-house Internal Audit team or contracted in resources.

Cost

- 6.5 The cost of the service remains competitive, as discussed by the Audit Committee when a new three year Service Level Agreement was approved by in February 2016.

Quality and Improvement Programme

- 6.6 I can confirm I have maintained an appropriate Quality and Improvement Programme (QAIP) during the year for the in-house team. As required by the Standards, this consisted of:
- ongoing supervision and review of individual audit assignments
 - reporting on a set of performance targets to the Audit Committee each quarter (for all work done including that of the external supplier)
 - undertaking a self assessment which evaluates:
 - conformance with the Standards
 - compliance with the CIPFA Statement on the Role of the Head of Internal Audit.

Due to resource constraints, there have been no independent files reviews completed this year.

I have received assurance from the external supplier that its arrangements also comply with the Standards.

- 6.7 The final position statement on the actions taken by the in-house team during the year, to address areas that were not fully conformant with the Standards at the end of 2014/15 were also reported to the Audit Committee. These were substantially completed. The outstanding items will be addressed once the outcome of the service review is known.

No new actions have been identified from the 2015/16 assessments outlined above.

Other Disclosures

- 6.8 As required by the Standards, I can confirm that the Internal Audit service has:
- operated in a manner that maintains its organisational independence throughout the year
 - been able to determine the scope of reviews, perform the work and report on its findings without interference neither has there been any inappropriate resource limitations imposed upon it.

Conclusion

- 6.9 Therefore, it is possible to conclude that the company maintained an adequate and effective internal audit service during 2015/16.
- 6.10 The service will continue to maintain an action plan that captures opportunities to strengthen its operating arrangements as and when they arise. The results of this work will be reported to the Audit Committee periodically.

7 Issues for the Annual Governance Statement

7.1 **No issues** have come to my attention relating to either the company or the operation of its Internal Audit Service that I believe need to be disclosed in its Annual Governance Statement, other than those already identified.

8 Diversity and Equal Opportunities

8.1 There are no direct diversity or equal opportunities issues to consider as a result of this report.

9 Risk

9.1 Failure to operate a robust assurance process (which includes an internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact upon the ability of the company to deliver its objectives.

10 Financial Implications

10.1 The Audit Plan was delivered within approved budgets.

11 Resident Consultation

11.1 None.

12 Background Papers

- 12.1
- UK Public Sector Internal Audit Standards
 - CIPFA, Local Governance Application Note for the UK Public Sector Internal Audit Standards
 - CIPFA, The Role of the Head of Internal Audit in Public Service Organisations 2010
 - CIPFA, Audit Committees, Practical Guidance for Local Authorities and Police 2013.

13 Appendices

- 13.1
- Appendix 1a: Assurance Summary 2015/16
- 13.2
- Appendix 1b: Internal Audit Services, 2015/16 Audit Plan as at 6 May 2016