

South Essex Homes Limited

Agenda
Item No.

11

Report of Head of Internal Audit
to
Audit Committee
on
28 April 2010

Report prepared by: Linda Everard, Head of Internal Audit

Head of Internal Audit Annual Report 2009/10

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To provide an opinion on the adequacy and effectiveness of South Essex Homes's (the company's) systems of internal control based upon the audit work completed during the year.

2. Recommendation

- 2.1 The Committee approves the Head of Internal Audit's Annual Report for 2009/10.**

3. Background

- 3.1 The purpose of the Head of Internal Audit's Annual Report and Opinion is to contribute to the assurance available to the company to support its annual assessment of the effectiveness of its systems of internal control.
- 3.2 The company is not required to produce a Statement of Internal Control for its own purposes. However as a wholly owned subsidiary, it is required provide Southend-on-Sea Borough Council (the Council) with evidence of the robustness of its governance arrangements in support of the disclosures the Council is required to make in its Annual Governance Statement.
- 3.3 The opinion is predominantly based upon and limited to the work performed during the year on the overall adequacy and effectiveness of the company's risk management, control and governance processes. This is outlined in the risk based audit plan agreed with the Executive Management Team and the Audit Committee.
- 3.4 Internal Audit has not reviewed all risks and assurances relating to the company.
- 3.5 A summary of the work undertaken in 2009/10 is contained within the Summary Progress Report.

4. HEAD OF INTERNAL AUDIT OPINION ON THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL FOR THE YEAR ENDED 31 MARCH 2010.

4.1 My opinion is set out as follows:

- Overall opinion
- Basis for the opinion
- A commentary providing a rationale for my opinion.

4.2 **MY OVERALL OPINION IS THAT:**

Assurance can be given that the system of internal control designed to support the delivery of the company's objectives is sound and that controls are generally being applied.

However further work is required during 2010/11 to ensure that there is robust risk management arrangements at all levels within the company.

4.3 **THE BASIS FOR FORMING THIS OPINION IS AS FOLLOWS:**

- an assessment of the design and operation of the underpinning assurance framework and supporting processes; and
- an assessment of the range of individual opinions arising from risk based audit assignments which have been reported during the year. This assessment has taken account of the relative significance of these areas and management's progress in addressing control weaknesses.

SUPPORTING COMMENTARY

ASSURANCE FRAMEWORK

4.4 *The company continues to develop its overall assurance framework. Consideration now needs to be given as to whether the Audit Committee receives adequate assurance over the operation of the full range of governance processes and related risks. The Audit Committee may also want to assess its own performance against good practice guidance as is the practice in other sectors.*

4.5 The elements of the framework considered this year include:

- the robustness of the governance arrangements in place to deliver the non-decent homes elements of the Asset Management Strategy;
- corporate risk management including anti fraud and corruption arrangements;
- Manager Assurance Statements (refer separate report); and
- compliance of internal audit with the requirements of the Code of Practice for Internal Audit in Local Government in the UK (2006) published by the Chartered Institute of Public Finance and Accountancy (the Code) (refer separate report).

4.6 The main findings from this work were that:

- there is a need to develop robust service planning that also facilitates effective risk management within the Asset and Business Investment Team. This was the only limited assurance opinion given during the year but reflects a development need that should to be addressed more widely across the company (see below);
- the company's risk management arrangements continue to develop. A policy, strategy and action plan has been adopted and the corporate risk register has been input onto Covalent (the performance management system). By the end of 2009/10, the content of the corporate risk register had been developed to include the current mitigating controls and the further actions to be taken where it is determined that the current level of risk is unacceptable;
- the company also needs to build on current service planning arrangements. The focus being to clarify the linkages between service objectives and actions with the overarching Improvement Plan in each service plan as well as further integrating outcome based budgeting;
- action has been taken during the year to raise awareness of the risk of fraud and corruption via four staff briefing sessions which all staff were required to attend;
- reliance could be placed on the 2009/10 Manager Assurance Statements to accurately reflect the level of compliance with key business processes for the year (refer Manager Assurance Statements Report) The issues coming out of this work relate to embedding risk management throughout the company (see section 5 below) and building on current service planning arrangements;
- Internal Audit complied with the requirements of the Code; and
- Internal Audit undertook sufficient work to support the Head of Internal Audit's Annual Opinion. The Summary Progress Report provides details of the actual delivery against the plan and performance targets agreed for the year.

ASSURANCE PROVIDED BY INTERNAL AUDIT REVIEWS

4.7 *The systems of internal control reviewed were generally designed to meet the achievement of company objectives and operated consistently. In some areas opportunities to strengthen the control environment were identified and actions agreed to address this.*

4.8 Summary audit findings that specifically support the view given as to the robustness of the company's systems of internal control are as follows:

- it is expected that internal controls within the key financial systems (either in-house or operated by the Council) will remain sound;
- there are effective processes and procedures in place to refurbish void properties to meet the 'lettable' standard and then promptly re-let them;

- repairs and maintenance work procured through the use of efficient, modern techniques that secure value for money;
- current arrangements are appropriate to deliver on-going 'new business' projects and provide a good basis for the future development of this area of activity;
- the arrangements appear to be appropriate to deliver 2010/11 Decent Homes programme; and
- sound processes are in place to maintain estates and shared areas. However, there is scope to further strengthen condition surveys by incorporating more stakeholder input and simplifying the assessment criteria. There also needs to be more insightful assessments of whether the costs of providing such services are recovered by the direct charges raised.

4.9 The opinion and summary findings from audit reviews have been reported throughout the year to the Audit Committee.

IMPLEMENTING AGREED RECOMMENDATIONS

4.10 Recommendations are made to address internal control weaknesses identified during all audit reviews. Internal Audit then ensures that these are implemented, properly, by the due date.

4.11 Recommendations made are generally implemented in a timely manner.

5. Issues for inclusion in the Council's Annual Governance Statement

5.1 The main issue that need to be reported in the Council's Annual Governance Statement for 2009/10 relates to the need to develop more embedded risk management processes throughout the company.

5.2 The proposed inclusions in the Council's Governance Statement are included in a separate report (Extract from Southend Borough Council Annual Governance Statement).

6. Diversity and Equal Opportunities

6.1 There are no direct diversity and equal opportunities implications as a result of this report.

7. Risk

7.1 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.

8. Financial Implications

8.1 The audit plan was delivered within approved budgets.

9. Resident Consultation

9.1 None.

10. Background Papers

- The Accounts and Audit Regulations 2003 & The Accounts and Audit (Amendment) (England) Regulations 2006
- Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

11. Appendix

None