

# South Essex Homes Limited

Report of the Head of Internal Audit  
to  
**the Audit Committee**  
on  
**10 May 2011**

Agenda  
Item No.

8

Report prepared by: Linda Everard, Head of Internal Audit

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## Head of Internal Audit Annual Report 2010/11

*A Part 1 Public Agenda Item*

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### **1 Purpose of Report**

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

### **2 Recommendations**

- 2.1 **The Audit Committee accepts the Head of Internal Audit's Annual Report for 2010/11.**

### **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, the company is required to 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 2010/11 is contained within the Summary Audit Progress Report.

## 4 HEAD OF INTERNAL AUDIT OPINION ON THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL FOR THE YEAR ENDED 31 MARCH 2011

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.***

Going forward, the company needs to:

- consolidate its arrangements for ensuring that its strategic objectives are clearly cascaded through service plans to individual performance targets
- produce a medium term financial plan to support its long term corporate plan (Towards Excellence) and medium term service improvement plan (Plan for Excellence)
- further develop its risk management and business continuity arrangements.

This would provide assurance that all the company's resources are effectively focused.

The control environment within individual service areas reviewed was generally sound. It was identified however that further work was required to strengthen the arrangements with regard to Hostels and the management of the Grounds Maintenance Contract.

4.3 **Therefore from the audit work completed, the two areas that should be disclosed in the company's Governance Statement and Action Plan are:**

- developing a medium term financial plan; and
- making clearer links between corporate objectives, the actions required to achieve them at a service and individual level and the risks that could prevent their achievement.

4.4 **THE BASIS FOR FORMING THIS OPINION IS AN ASSESSMENT OF:**

- the design and operation of the underpinning business management arrangements / 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 implement recommendations to mitigate identified control risks within reasonable timescales; and
- the impact of any issues arising from cumulative audit knowledge and other available information regarding the company's systems of internal control.

## 5 SUPPORTING COMMENTARY

### *ASSURANCE FRAMEWORK / BUSINESS MANAGEMENT ARRANGEMENTS*

5.1 ***The company continues to develop its overall assurance framework. Whilst the company's business management arrangements are sound, further work is required to fully embed them throughout the organisation.***

5.2 The company's business management arrangements are set out in the Annual Assurance Statement and supported by a corporate risk register.

5.3 The elements of the assurance framework reviewed this year include:

- the Annual Assurance Statement
- Financial Planning
- Business and Service Planning

5.4 A sample of the annual management assurance statements were also challenged to assess whether supporting evidence was available to support the met, partially met, not met assertions.

5.5 The Audit Committee completed its annual performance assessment against good practice guidance - which is the subject of a separate report.

5.6 The main findings from this work are that:

- the Annual Assurance Statement sets out the company's key business management arrangements but in some areas could be more explicit about what evidence is going to be provided, to whom and when to confirm these processes are fit for purpose and their application is being monitored at a corporate level
- the company also needs to build on current service planning arrangements by consistently strengthening the links between the strategic plan "Towards Excellence" objectives with the delivery actions contained in service plans and individual performance targets
- there is a need to develop a robust medium term financial plan that demonstrates how medium and longer term strategic objectives are to be resourced whilst bringing the Housing Revenue Account into a balanced position
- the Audit Committee delivered its Terms of Reference and operated in line with good practice guidance.

5.7 Other assurance has been gained in support of the opinion from the Manager's Annual Assurance Statements (see separate report). From the audit work completed, it was possible to conclude the statements fairly present the business management processes operating within the service areas throughout the year with the exception of business continuity, which should be part met.

5.8 Business management arrangements requiring further development identified from this source were:

- **Risk Management**, where the company's arrangements continue to develop. The focus should now be more on structuring the risks around the objectives they relate to and ensuring that risks identified are clearly defined e.g. cause, event and impact
- **Business Continuity**, where the company needs to approach the Council to confirm it has developed robust business continuity plans for all aspects of the company's activity (as the company's arrangements are to be detailed in an appendix to the Council's plan). These plans should be tested by the company where it can do so and the results reviewed as soon as possible

#### ***RISKED BASED AND OTHER AUDIT REVIEWS***

5.9 ***The systems of internal control reviewed were generally designed to meet the achievement of company objectives and operated consistently. The two areas where this was not the case were Hostels and Management of the Grounds Maintenance Contract although actions have been agreed to address this.***

5.10 The systems of internal control were considered to be good or adequate in the following areas:

- key financial systems (either in-house or operated by the Council)
- the Microsoft Access databases feeding into the APEX (Asset Management) application, which was assessed as good
- workforce planning arrangements and management of attendance which was generally effective although enhancing the selection processes and new starter procedures would further mitigate the risk that the wrong person is employed
- health and safety, although an action was to be developed showing how the Safety, Health and Environment Policy and a Human Resources and Health and Safety Strategy are to be delivered. Better arrangements were also required to ensure risks arising from accidents and health and safety audits were appropriately mitigated.

5.11 Significant work was required to strengthen the arrangements with relating to:

- the provision of hostel accommodation. Whilst this was being provided to those meeting the criteria of homelessness legislation, some key business management processes are not robust enough to ensure service objectives would always be met. Therefore work was agreed to improve the policy and procedure framework as well as the performance and risk management arrangements. Evidence is now being retained to support decisions made and key actions taken

- managing the delivery of the new grounds maintenance contract. The contract specification provided an adequate basis to monitor contract compliance however the current monitoring regime provided only a limited degree of assurance the contract was being complied with.

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

#### ***IMPLEMENTING AGREED RECOMMENDATIONS***

5.13 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.

5.14 Recommendations made are generally implemented in a timely manner.

### **6 Diversity and Equal Opportunities**

6.1 There are no direct diversity or equal opportunities 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**

- 10.1
- CIPFA: Audit Committee Practical Guidance for Local Authorities
  - CIPFA: A toolkit for Local Authority Audit Committees
  - Code of Practice for Internal Audit in Local Government in the UK (2006) published by the Chartered Institute of Public Finance and Accountancy

### **11 Appendices: None**