

# South Essex Homes Limited

Report of the Head of Internal Audit  
to

**Audit Committee**

on

**1 May 2012**

Report prepared by: Linda Everard, Head of Internal Audit

**Agenda  
Item No.**

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## Head of Internal Audit Annual Report 2011/12

*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) system 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 2011/12**
- **takes account of this report when considering the company's Annual Governance Statement.**

### 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 system 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 Appendix 2 of the Summary Audit Progress Report contains a list of the audits undertaken during the year and the opinions given as to the adequacy of the control environment in each case.

#### **4 HEAD OF INTERNAL AUDIT OPINION ON THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL FOR THE YEAR ENDED 31 MARCH 2012**

4.1 My opinion is set out as follows:

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

**MY OVERALL OPINION IS THAT:**

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

4.3 **Further work is required however to strengthen the company's information management arrangements. This should therefore be disclosed in the company's Governance Statement.**

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

- 4.4
- The design and operation of the underpinning business management arrangements
  - 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
  - The impact of any issues arising from cumulative audit knowledge and other available information regarding the company's system of internal control.

#### **5 SUPPORTING COMMENTARY**

5.1 The main business management process reviewed this year was the company's information management arrangements, the aim being to assess whether they are up to date and fit for purpose.

5.2 Further work is required by the company to define its overarching approach to managing its information. Once the policy and strategy has been produced, it needs to be communicated to all staff and Board Members. Appropriate arrangements also need to be established to monitor and evidence compliance with these requirements.

5.3 The company has updated its Anti Fraud & Corruption, Whistleblowing and Anti Money Laundering policies and strategies during the year. These now reflect the requirements of the Bribery Act 2010. A programme of work also commenced during the year to implement the strategy.

5.4 Other information regarding the company's business management arrangements that has also been taken into account in forming my opinion relates to:

- Manager Assurance Statements
- The Performance of the Audit Committee

- 5.5 The evidence available to support managers' assessment of whether the company's business management processes had been applied at service level was challenged for a sample of Manager Assurance Statements.
- 5.6 On the basis of this limited review, it was possible to conclude that the managers' assessments were not unreasonable, and therefore they could be used as evidence to support the Annual Governance Statement.
- 5.7 The Audit Committee has also operated in line with good practice guidance during the year. The annual performance assessment exercise identified the need to revisit roles and responsibilities of the Audit Committee and the Performance Committee in 2012/13 to ensure the appropriate information was being reported to each to enable them to discharge their terms of reference.
- 5.8 The system of internal control were considered to be good or adequate in the following areas:
- **Careline (Adequate)** where management controls were in place ensure the critical day to day tasks were delivered effectively. At the time of the audit, it was necessary to confirm the new equipment maintenance contract complied with relevant procurement requirements before it was signed. Further work was also required:
    - to improve stock management to ensure waste is minimised
    - to develop a charging structure that most effectively helps achieve the service's objectives and the wider objectives of the company in conjunction with the Council.
  - **Customer Contact Centre (Good)** where good management controls are in place to deal effectively with enquiries. The focus is now on further developing arrangements to minimise avoidable enquiries and change the means of enquiry. Plans to integrate the Careline service and the Customer Contact Centre were well advanced and included the expected and measurable benefits and the actions needed to complete the task.
  - **Income Management (Good)** where the Income team had good arrangements in place to minimise loss of rent income. There was scope to improve the arrangements for chasing up former tenant arrears and debt collection services needed to be put out to tender.

With regard to in house financial systems:

- **Accounts Payable (Adequate)** where processes to make payments through the previous financial system (Cedar) were designed with appropriate controls. Although action has been taken to ensure the Schedule of Delegated Authority permissions and authorisation limits matches the permissions on the iWorld repairs ordering and payment system, further evidence was required to confirm the system permissions were accurate.

- **Treasury Management (Good)** whereby arrangements were fit for purpose to comply with the CIPFA Treasury Management code of practice and thereby make appropriate investment decisions.
- **Housing Rents (Good)** where there were satisfactory controls in place to process and receive housing rent payments accurately and completely. Further work was being undertaken:
  - to clearly evidence that all the management controls were in place and that they were operating as designed
  - to block or make 'read only' any rent accounts where staff declare an interest. (Please note Southend Council as the housing rent system administrators are responsible for doing this).

Systems shared with financial systems shared with the Council:

- **Payroll (Delphi) (Improvement Required)** whereby the key payroll controls the company rely upon to ensure payments are accurate, timely and comply with relevant statutory regulations were assessed as not operating consistently or effectively. The main areas where improvements were required were:
  - managing access to the payroll system
  - evidencing systems parameters to ensure deductions (regarding tax and national insurance) are accurate
  - consistently undertaking management checks to confirm the validity of exceptions and deviations with previous payments.
- **Payroll (Agresso) (Improvement Required)** whereby the control environment remained much the same as above with improvements needed around the controls to ensure amendments made to records are appropriate, input accurately and supported by relevant documentation.
- **Income and Banking (Good)** whereby there were satisfactory processes and controls related only to collect housing rent income through the Council's cash receipting system and could therefore be relied upon to appropriately guide income management action.

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

**IMPLEMENTING AGREED RECOMMENDATIONS**

5.10 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.

5.11 The company's process for monitoring that recommendations are implemented, properly, in a timely manner is good. As a result, the majority of actions agreed are implemented within appropriate timescales. Where target implementation dates are not achieved, the reasons for that are understood and being managed appropriately.

**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
  - CIPFA: Code of Practice for Internal Audit in Local Government in the UK (2006)
  - CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010

**11 Appendices: None**