

# South Essex Homes Limited

Agenda  
Item No.

Report of the Head of Internal Audit  
to  
**Audit Committee**  
on  
**3 June 2013**

Report prepared by: Linda Everard, Head of Internal Audit

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## Head of Internal Audit Annual Report 2012/13

*A Part 1 Public Agenda Item*

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### **1 Purpose of Report**

- 1.1 To provide the rationale for and an audit opinion on the adequacy and effectiveness of South Essex Homes (the company's) system of internal control during 2012/13.

### **2 Recommendations**

#### **2.1 The Audit Committee:**

- **accepts the Head of Internal Audit's Annual Report for 2012/13**
- **takes account of this report when considering 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 system of internal control 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, 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 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 All audit reports have been agreed with the relevant Group Managers and Directors before being finalised. They are then presented to the Audit Committee.
- 3.5 Internal Audit has not reviewed all risks and assurances relating to the company's activities.

## 4 HEAD OF INTERNAL AUDIT OPINION FOR THE YEAR ENDED 31 MARCH 2013

### 4.1 *In my opinion, the system of internal control designed to support the delivery of the company's objectives is generally good and that controls are generally being applied.*

Please note this opinion is based on work completed to date but that there are two audits currently in progress. Should the results of those audits identify any issues that would alter my opinion an amended report will be presented to the next committee.

### 4.2 THE BASIS FOR FORMING THIS OPINION IS AN ASSESSMENT OF:

- The design and operation of the underpinning business management and governance 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

### *Governance and Corporate Management Arrangements*

### 5.1 **Manager assurance statements** were completed again this year by group managers and team leaders. They have concluded that the company's key business management processes have generally been applied at service level throughout the year. The Group Manager, Finance and Support Services has reviewed and challenged these statements this year.

The majority of the requirements within each area of the manager assurance statements had been assessed as met. Areas identified by individual managers where there they felt there is some scope to further improve the arrangements are:

- risk management and performance management (by five of the 12 managers)
- Tenancy Services and Southend Multi-Agency Anti-Social Behaviour Reduction Team in five of the 12 business management processes.

### 5.2 The company has continued to maintain a **corporate risk register** throughout the year which is periodically reported to and challenged by the Executive Management Team and the Performance Committee.

- 5.3 The **Audit Committee** has continued to operate in the same manner as it has in previous years. It has also held a private meeting (i.e. without officers present) with internal audit during the year and the intention is to do so with external audit. Given this, it is possible to conclude that, like last year, the Audit Committee operated appropriately during the year.

The main issue still to be addressed is clarifying how the Audit Committee is to discharge one of its core roles which is to provide independent assurance on the adequacy of the company's risk management framework. This role forms part of its Terms of Reference. Throughout the year, all risk management reports went to the Performance Committee.

There is a need therefore to ensure the appropriate information is being reported to each committee to enable them to discharge their respective roles.

There are also plans in 2013/14, to provide the Audit Committee with more regular briefings on how the company is managing the risk of fraud.

### **Service Delivery Risks**

- 5.4 The **Performance Management** review concluded that the framework is appropriately designed and generally consistently applied. At the time of the audit there were some potential areas for improvement which included:

- further clarifying roles and responsibilities of officers and members within the performance management strategy
- ensuring other business management processes that impact on performance management are consistently applied.

### **(Good Audit Opinion)**

- 5.5 **Service Plans** were developed for all required areas in 2012/13. They are fit for their purpose given the organisation's size and the nature of their operations.

**Appraisals** and associated staff performance management arrangements are generally fit for purpose and have been consistently applied as required.

Internal Audit will work with staff in June to assess further how both service planning and appraisals can continue to contribute, and indeed improve their contribution, to the ongoing effective operation of the company.

Given the foreseeable potentially significant changes to the company's operational and financial environment in the short and medium term, this will be an opportune time to think ahead and assess the company's future service planning and staff management needs.

- 5.6 Many operational strengths and good processes were identified when auditing the **Allocations** process. However a number of weaknesses were also identified that meant potential fraudulent activity *could* occur, resulting in properties being occupied inappropriately. It should be noted that no inappropriate actions by staff were identified when testing a sample of properties that had been allocated.

The key risks identified were that:

- a number of staff had the ability to amend the housing database to both terminate a tenancy and then allocate a new tenant to a property
- there were ineffective identity checks to confirm the person undertaking the viewing and collecting the keys was the applicant
- staff were not checking the potential risk register (i.e. the list of individuals and locations where there is a known risk of violence) before undertaking viewings to identify whether any precautionary measures were necessary
- the potential risk register might not have been complete as the Council and company were not sharing such information at the time of the audit.

Actions have already been taken to mitigate most of these risks.

### **(Improvement Required Audit Opinion)**

- 5.7 With regard to **Housing Rents**, satisfactory controls were found to be in place and operating appropriately to process and receive housing rent payments accurately and completely.

### **(Good Audit Opinion)**

- 5.8 The company share the payroll financial system with the Council. The company also relies on the Council's cash receipting process to receive housing rent income.

The view on the relevant controls the company rely on in relation to these systems, is:

- for **Payroll**, they are not operating consistently or effectively. Processes relevant to the company where improvements are required include:
  - introducing mandatory, automated authorisation of input of key data (including new starters and leavers)
  - introducing automated alerts to, and logging of, amendments to key, inherently high risk data and independently reviewing such changes for appropriateness
  - consistently undertaking management checks to confirm the validity of variations to expected payments.

### **(Improvement Required Audit Opinion)**

Substantive testing of a limited sample of payroll transactions did not highlight any significant concerns with data input or amendments to data.

- for **cash receipting**, they are operating satisfactorily and therefore provide accurate information to guide any necessary recovery action required.

### (Good Audit Opinion)

5.9 Given the current intentions regarding **new business development**, this audit has now been agreed to be a 'critical friend' role over the next six to 12 months to coincide with any new arrangements as they are planned and implemented. Initial feedback will be provided in June 2013 and again at relevant points in 2013/14.

5.10 Work is currently in progress to:

- spot check lower value **procurements** (i.e. those below the £50,000 that require three quotes)
- assess whether there are adequate processes, procedures and safeguarding arrangements in place to effectively and efficiently manage the provision of **sheltered housing**

A verbal update will be provided to the meeting on the main findings of the work, any control improvements required and whether these findings affect the Head of Internal Audit annual opinion.

### *Implementing Agreed Recommendations*

5.11 Recommendations are made to address internal control weaknesses identified during all audit reviews. When implementation dates have past, Internal Audit will retest to ensure the agreed action has taken place and is being applied consistently.

5.12 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. INTERNAL AUDIT PERFORMANCE

6.1 It is possible to conclude that the company maintained an adequate and effective internal audit service during 2012/13 as there is sufficient evidence to demonstrate that:

- professional standards as set out in the CIPFA, Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code) have been adhered to
- the requirements of the CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010 have been substantially met
- the team delivered on the majority of its performance targets, despite having to deal with resourcing issues during the year which resulted in an overall reduction in work delivered.

6.2 This year, the performance assessment was independently challenged by the Head of Performance and Service Improvement at Castle Point Borough Council.

6.3 Some opportunities have been identified to further strengthen the team's operating arrangements and an action plan has been produced to address them.

## **7 ISSUES FOR THE ANNUAL GOVERNANCE STATEMENT**

7.1 No issues have come to my attention this year **other than those already disclosed** that I believe need including in the company's Annual Governance Statement.

## **8 Diversity and Equal Opportunities**

8.1 There are no direct diversity or equal opportunities issues 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
- 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

## **13 Appendices: None**