

South Essex Homes Limited

Report of the Head of Internal Audit

to

Audit Committee

on

21 May 2014

Report prepared by: Linda Everard

Agenda
Item No.

7

Head of Internal Audit Annual Report 2013/14

A Part 1 Public Agenda Item

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) framework of governance, risk management and control for the 2013/14 financial year
- a statement on conformance with the 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 2013/14**
- **ensures 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 governance, risk management and control 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. All such reports presented to the Audit Committee are first agreed with the relevant Group Managers and Directors.

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

4 Head of Internal Audit Opinion for the year ended 31 March 2014

4.1 *In my opinion, the governance, risk management and control framework designed by the company in order to deliver its objectives is good.*

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

- the design and operation of the:
 - underpinning governance and assurance framework
 - key financial systems
- 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 recommendations to mitigate identified control risks within reasonable timescales.

5 Supporting commentary

5.1 **Appendix 1A** summarises the results of the audit work undertaken this year. This demonstrates the continuing strength of the company's overall governance, risk management and control framework.

5.2 The key issues arising from those audits assessed as either adequate or improvement required are to:

- formally capture at the first opportunity the actions needed following inspections of the condition and quality of estates and supervision of Estate Management staff
- demonstrate that the Estate Management supervisors have shared and discussed the results of their supervisory checks with the relevant staff
- review and demonstrate review of Estate Management vehicle tracking information to confirm whether mobile staff have been at the required sites for the required times
- address slippage in implementing the Housing Energy Strategy actions.

Work has been undertaken during the year to strengthen the controls in these areas.

5.3 With regards to the Payroll system, this is operated by the Council but used to pay company staff.

The key areas where improvements are still required include:

- strengthening controls over making amendments to the Payroll system
- ensuring consistent application of the control to independently reconcile BACs payments to the Payroll system before payments are made
- improving the supporting documentation that demonstrates that annual uplift to the Payroll system were properly tested to ensure their accuracy before the changes were made live on the system.

Action is being taken to address these issues (see Appendix 1 in the Council's Summary Audit Progress Report).

Implementing Agreed Recommendations

- 5.4 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.
- 5.5 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 Service Performance Assessment

Audit Plan

6.1 Appendix 1B shows:

- the final status of the 2013/14 Audit Plan including the audit opinion where the work has been completed (which is a comparison of actual work completed against work planned)
- the timing for the Ethical Governance audit
- progress made in implementing agreed action plans (if due).

Performance Indicators

6.2 The final assessment of performance against the 2013/14 targets shows that:

- the cost of the service remains competitive
- draft reports are being issued promptly once the fieldwork is complete
- the audit plan was substantially delivered (89% against a target of 100% by the May 2014 Audit Committee). The draft Employee Engagement report is with officers to consider whilst testing is complete with relation to the Programme Delivery and Contract Compliance audit.

Please note, it was agreed with senior management not to start the Ethical Governance audit until June 2014 to take account of updated arrangements in this area so this has been excluded when calculating the audit plan delivery target.

- clients remain satisfied with:
 - the manner in which the team worked with them to deliver the work
 - the focus and quality of the work undertaken.

Conformance with Professional Standards

6.3 I can confirm I have maintained an appropriate Quality and Improvement Programme (QAIP) during the year. 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
- undertaking a self assessment which evaluates:
 - conformance with the Standards
 - compliance with the CIPFA Statement on the Role of the Head of Internal Audit (which is due to be updated in 2014/15).

As the guidance notes supporting the Standards were issued after April 2013, it was not possible for the service to meet these requirements for the whole year.

The initial assessment did not identify any significant areas that did not conform to the Standards, as reported to the Audit Committee in November 2013. This initial assessment was updated at the year end, which confirmed that substantial progress has been made in addressing the issues previously identified.

The main area still requiring some attention is amending aspects of the Audit Manual to reflect the new or more explicit requirements of the Standards.

When last reviewed, there was a high level of compliance with the requirements of the CIPFA Statement on the the Role of the Head of Internal Audit. Circumstances have not changed significantly since then so positive assurance can also be taken from this.

Other Disclosures

- 6.4 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

- 6.5 It is possible to conclude that the company maintained an adequate and effective internal audit service during 2013/14 as there is sufficient evidence to demonstrate that:
- the team delivered on the majority of its performance targets, despite continuing to deal with resourcing issues during the year
 - the there has been substantial conformance with the Standards
 - I have continued to substantially comply with the requirements CIPFA Statement on The Role of the Head of Internal Audit in Public Service Organisations 2010 in discharging my role as the Head of Internal Audit.
- 6.6 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, other than those already identified, that I believe need to be disclosed in its 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
- 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: Summary of the Audit Work Supporting the Audit Opinion for 2013/14
- 13.2
- Appendix 1B: Audit Plan 2013/14