

# South Essex Homes Limited

Agenda  
Item No.

Report of the Head of Internal Audit  
to  
**Audit Committee**  
on  
**13 May 2015**

Report prepared by: Linda Everard

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## Head of Internal Audit Annual Report 2014/15

*A Part 1 Public Agenda Item*

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### 1 Purpose of Report

1.1 To provide, for the 2014/15 financial year:

- the rationale for and an audit opinion on the adequacy and effectiveness of South Essex Homes (the company's) risk management, control and governance processes
- a statement on conformance with the UK 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 2014/15**
- **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 risk management, control and governance 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 individual audit reports are presented to the Audit Committee having first discussed and agreed them with the relevant Group Manager, Director and or the Chief Executive.

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 2015

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

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 and assurance obtained from other relevant sources.

Overall this shows that the majority of areas audited had operating environments that were either well or adequately controlled. Where necessary, recommendations have been made to improve the control environment.

The following paragraphs:

- summarise findings from blocks of work undertaken during the year
- highlight some of the areas requiring improvement
- include details of assurance obtained from other relevant sources.

### ***Governance and Assurance Arrangements***

5.2 The company's **corporate governance arrangements** were robust in that:

- the arrangements set out in the Code of Governance and Articles of Association reflected good practice principles defined in the National Housing Federation's 'Excellence in Governance Code for members'
- practical application of the good practice principles could be demonstrated within the day to day operation of the company's business.

5.3 It was also possible to conclude that the company had the key governance documents and arrangements in place to establish an **ethical governance framework**.

5.4 The majority of **Service Level Agreements (SLA)** with the Council include sufficient information to enable the company to manage the on-going delivery of services although:

- the ICT SLA needs updating
- more should be done to set out service and then manage quality expectations.

## 5.5 Information Management

Managers need to consistently and effectively use the good quality reports the electronic documents records management system (Civica) can produce to ensure documents are being processed as required, in a timely way, with proper approval (if required).

The SLA for HR and Payroll services needs to be supplemented by a data sharing agreement or protocols which set out how the company will get assurance its data is being processed per its wishes and held securely.

## 5.6 Other assurance has also been taken from the:

- performance and effectiveness assessments completed by the Audit Committee
- arrangements established to validate the Management Assurance Statement assessments
- the work undertaken with the company to establish how it gets evidence that both business management arrangements and service delivery systems are operating as designed (**assurance framework**).

(Refer to the Audit Committee Annual Report)

## **Service Risks and Key Financial Systems**

## 5.7 The company effectively communicated the generally positive **employee engagement survey** results to the relevant people and had addressed many of the improvement opportunities identified from it, at the time of the audit.

An action plan had been produced to drive further employee engagement and development improvements as one of the key work streams of the wider organisational development plan.

## 5.8 The **capital improvement works service** delivered by contractors was well managed and included monitoring of budgets, quality of work and completion within agreed timescales. There was also regular reporting of all aspects of service delivery to residents, senior management and the Board.

## 5.9 The company had adequate arrangement in place to provide a safe and effective **housing management service** to residents in need of temporary accommodation which meant:

- **hostel** residents could be swiftly placed in accommodation which is safe, secure and meets their needs
- personal information held was kept secure.

Further action was required to:

- review the Supported Housing Policy to clarify the service's purpose
- independently review placement assessments currently undertaken by the Supported Housing Services Manager.

## 5.10 **Atilius** had established the required fundamental **governance, financial and operational arrangements** for this stage of its development and level of activity.

There were clear, documented and agreed formal protocols between South Essex Homes and Atilius which established:

- key roles and responsibilities
- the required standards of governance and financial control
- the ongoing flow of information between the two companies.

A small but important number of further actions were needed to further strengthen the arrangements. Notably this included clarifying how all funds and services provided by South Essex Homes to Atilius were to be treated for accounting purposes and re-charged to ensure transparent and fair use of public money.

- 5.11 The processes to ensure, and clearly demonstrate, the proper and fair **allocation of all properties** needs improvement.

Arrangements for refurbishing empty properties, organising viewings with prospective tenants and signing them up are generally adequate. However applicants' identities always need to be verified and risk assessments done to ensure staffs' safety when viewing a property.

The void turnaround targets are reported as being met but the information used to manage the refurbishment contractors' performance should be improved.

- 5.12 Adequate controls are in place to effectively prevent or detect material errors in the **Housing Rents system** on a timely basis, so that this information can be relied upon when producing the company's and Council's financial statements.

Further work is required to ensure:

- separation of duties is enforced between closure of tenancy and rent accounts
- all charges relevant to a property are being allocated and charged correctly for newly created rent accounts
- staff access to and permissions within the Housing Rents system are restricted where conflicts of interest have been declared (which is a Council function).

- 5.13 The company uses to Council's **Payroll system** to pay its staff. During 2014/15, the key areas where improvements are still required include:

- improving the supporting documentation that demonstrates that annual uplift to the Payroll system was properly tested to ensure its accuracy before the changes were made live on the system
- 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.

The majority of these control weaknesses should be addressed when the new payroll module and supporting operational processes are implemented in May 2015.

### ***Implementing Action Plans***

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

- 5.15 The **company's process for monitoring that agreed actions are implemented, properly, in a timely manner** has not operated consistently during the year and as a result, some actions have not been implemented in a timely manner. However action is being taken to address this going forward.

5.16 The **actions agreed** to strengthen the arrangements for providing a safe and effective **housing management service** to residents in need of temporary accommodation, have been implemented properly and in a timely manner.

## 6. **Conformance with Professional Standards**

### *Audit Plan 2014/15*

6.1 **Appendix 1b** shows that the work planned for the year has been delivered. It is also a record of actual work completed against work planned.

### *Performance Indicators*

6.2 The service performed well during the year with regards to its 2014/15 targets, in that:

- the Audit Plan was delivered
- draft reports are issued promptly once the fieldwork is complete
- clients remain satisfied with the:
  - manner in which the team worked with them to deliver the work
  - focus and quality of the work undertaken.
- the cost of the service remains competitive.

The team will work more closely with officers to ensure more timely completion of the work each quarter.

### *Quality and Improvement Programme*

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.

I have reported to the company, as required by the Standards:

- the final position on the actions taken during the year to address areas that were not fully conformant with the Standards at the end of 2013/14
- any new actions arising from either of the annual assessments completed as outlined above, regarding the team's performance during 2014/15.

The main area still requiring some attention when last reporting on compliance with the Standards was the need to amend aspects of the Audit Manual. All 2015/16 audit work will apply the updated Audit Manual which will conform to the requirements of the Standards.

During the year, some minor amendments will also be made to some of the team's other documents as identified in the action plan.

Some thought will be given as to whether there is a more efficient manner to obtain feedback from the company regarding compliance with aspects of the Standards when delivering audits.

The other main areas for development are regarding team focus (setting out a vision) and development once the resourcing issues experienced recently have been resolved.

### ***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 2014/15 as there is sufficient evidence to demonstrate that:

- the team delivered on its performance targets, despite continuing to deal with resourcing issues during the year
- there has been substantial conformance with the Standards
- there continues to be a high level of compliance with the requirements of the CIPFA Statement on the Role of 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 work that supports the 2014/15 Audit Opinion
- 13.2
- Appendix 1b: Audit Plan 2014/15 as at May 2015