

Appendix 2



**STEVENAGE HOMES LIMITED**

**ANNUAL GOVERNANCE STATEMENT**

**FOR THE YEAR ENDED 31 MARCH 2010**

## 1. Introduction and Background

The management of Stevenage Homes Limited (“the Company”) is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

In line with these responsibilities the management of the Company has, through PKF Ltd its internal auditor, conducted a thorough and independent review of its governance arrangements and is midway through an exercise to assist with the independent annual appraisal of the Board’s own performance and of the individual Board members by a specialist firm of consultants.

## 2. Establishment and monitoring of the achievements of our objectives

In discharging this responsibility, the executive management team is responsible for ensuring that there are sound internal control systems in place which facilitate the effective exercise of its functions. This is achieved by regularly examining the key risks that the Company faces and annually developing a set of objectives that the Company wishes to achieve known as the “delivery and business plan”. These two key documents inform the development of an annual internal audit plan designed to test the controls in place for both the key risks and the key objectives. The internal audit plan is delivered in part by independent internal auditors (PKF Ltd) and where the service is delivered under a Service Level Agreement (“SLA”) by Stevenage Borough Council, by the Borough Council’s internal audit team.

Monitoring of the delivery plan objectives on behalf of the Board is delegated to the Delivery and Implementation Committee that receive regular updates on progress against the plan. The Company has also recently deployed software known as SHAIIP to proactively monitor projects associated with the key objectives and record how these link into Audit Commission KLOE’s and the six strands of TSA regulation in addition to the company’s key performance indicators and risk register.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and to provide reasonable assurance against material misstatement or loss. The Company has in place a robust internal audit process to ensure risks are mitigated to an acceptable level. The process of identifying, evaluating and managing the significant risks faced by the Company is always ongoing.

A summary of the findings of PKF’s activity is attached at Appendix 1. Stevenage Borough Council’s review of Key Financials Assurance for the year ended 31 March 2010 is attached as Appendix 2 (Gursh Baines). Both auditors’ opinions of the internal controls are contained within these reports.

**Deleted:** The process of identifying, evaluating and managing the significant risks faced by Stevenage Homes is ongoing | misstatement or loss. [repeats paragraph in section 2 “word for word”] ¶

**Deleted:** [Gursh’s report is caveated “other than those audits assigned “moderate assurance” and therefore, as presently drafted, does not fully support this assertion].

### **3. Compliance with policies, procedures, laws and regulations**

In addition to the internal controls framework the Company's Annual Report and Financial Statements are prepared in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. The Company's directors are responsible for maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Deleted:

The Company has developed a full set of policies and procedures covering all aspects of its responsibilities, including: financial management; human resources management; health and safety; and all key operational areas that fall within the Company's remit. All staff have a responsibility to be familiar with and act in accordance with the policies and procedures of the Company that in themselves take account of legislative and regulatory requirements. From April 2010 a new regulatory authority, the Tenants Services Authority (TSA) became responsible for regulating local authorities with ALMO's. The Company is in the process of adjusting its practices to ensure that it follows the new authority's regulatory guidelines. The Company also has an Audit Committee which must be chaired by a Board Member other than the Chair. This committee has the remit of monitoring risk and receiving internal and external audit reports.

All staff and board members are required to sign a code of conduct, and to disclose any potential conflicts of interest. The Company also has clear policies on hospitality and whistle blowing to ensure that the highest levels of probity are maintained.

### **4. Facilitation of policy and decision making**

The Company has recently adopted the National Housing Federation's Code of Governance. This Code together with the Articles of Association and Memorandum of Agreement give clear guidance on the role of the Board and its powers. Various governance policies and procedural documents provide guidance and advice on the mechanisms for developing policy and other decision making. A scheme of delegation to draw together all existing documented procedures and powers is being assembled with the aim of ensuring that the Company puts into practice the requirements of its code of governance and that delegated powers are clearly understood.

The Company must also refer certain matters to its parent, Stevenage Borough Council, and these referrals are detailed in the document known as the Management Agreement between Stevenage Borough Council and Stevenage Homes Limited. Powers delegated by the Board to Committees are detailed in

terms of reference. Authorities delegated to the Chief Executive and other employees are detailed in job descriptions.

## **5. Receiving and investigating complaints from the Public**

The Company has developed a sophisticated response to compliments and complaints known as “Chip & Pin”. All matters are centrally co-ordinated through a dedicated team that categorises and monitors the timely response to all complaints and compliments received into the Company. The complaints procedure is a three stage process with very few complainants ever referring their complaints to the Ombudsman. Any complaints made to the Ombudsman are dealt with directly by Stevenage Borough Council in order to increase the accountability of the Company.

There is a three stage bespoke computerised system for capturing all stakeholder feedback. Learning points from complaints are captured and fed into business improvement processes. Performance in relation to response to complaints is monitored as a monthly key performance indicator and reported to all managers. The Delivery and Implementation Committee takes on the role of monitoring complaints.

All Board meetings are publicised, and questions from the public are encouraged.

## **6. Establishing clear channels of communication with all sections of the community [of SHL service users] and other stakeholders, ensuring accountability and encouraging open consultation**

The Company has recently adopted the National Housing Federation Code of Governance and part of its commitment under that Code is to develop an openness and transparency policy. Whilst this policy develops there are already many mechanisms already in place that ensure there are clear channels of communication including:-

- The quarterly “Housing for You” publication, circulated to all customers.
- A dedicated Marketing & Communications team
- A dedicated Resident Involvement Team
- An annual tenants report
- The ability for customers to log onto their own “account” through the Company’s website.
- The customer access strategy
- A single equality scheme

In order to encourage feedback from its customers, the Company commissions an independent company to undertake an annual STATUS survey to establish

levels of satisfaction with all key aspects of its services. This information is used to identify customer priorities and requirements for service improvements. The Company holds a customer conference annually, which is used to encourage customers to inform the following year's objectives for the Delivery and Business Plan through identifying their priorities.

The Company also holds detailed information on the majority of its customers broken down by the seven main equality strands. This information is held on the housing management IT system so that services can be tailored to meet the needs of specific individuals and groups. In 2009, the Company was awarded level three of the Local Government Equality Standards by an IDeA Peer Review. Equality Impact Assessments have been undertaken on all key business areas, and action taken to eliminate any barriers to equality that have been identified.

The Company's performance is benchmarked through membership of Housemark, and reported regularly to the Board and customers through a range of reports, articles in the Tenants Newsletter, and on the Company's web site.

The Board have recently approved a Corporate Social Responsibility Policy to show how the Company can increase its contribution to the Borough and its population. This will increase our alliances with other stakeholders across the town, which was identified as a priority in this year's delivery and business plan.

**7. Incorporating good governance arrangements in respect of any partnerships and reflecting these in the Company's overall governance arrangements.**

The Company supports the work of the independent Federation of Stevenage Tenants Association (FOSTA), its various area tenant associations and the Leaseholder Forum. Conditions have been agreed with regards to ensuring compliance with good practice, and in particular issues of probity and equality of access to these groups. Each report to the Board and Committees have a separate section for reporting FOSTA feedback where it is appropriate to do so and FOSTA are routinely involved in the selection of tenant (and leaseholder) board members.

The procurement arrangements for the Company ensure that contractors meet minimum standards which are specified for such things as equality and diversity, health and safety and compliance with all relevant legislation. Some training provided by the Company for its own employees has been extended to the employees of contractors who provide services to our customers to ensure that our standards of conduct are maintained.

Signed ..... Date .....

Signed..... Date .....



**Stevenage Homes Limited**

**Internal Audit Annual Report**

**2009/10**

Draft May 2010

Confidential



Accountants &  
business advisers

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# 1 Overall conclusion on internal control

- 1.1 We are pleased to report that we have completed our agreed programme of internal audit work for Stevenage Homes Limited (“SHL”) for the year ended 31 March 2010. Our programme took into account the challenges facing SHL during the year, the developing risk management framework of the organisation and relevant standards and guidance. We understand that the Council’s internal auditors have also completed some work on SHL’s financial systems during 2009/10 and have provided a separate assurance report thereon.

## Conclusion

- 1.2 **Based on our audit work, we concluded that the overall system of internal control in the areas covered by our audit work was adequate in most respects and generally operating effectively during 2009/10 for the purposes of SHL. These areas have therefore been given an overall assurance rating of 3. The main reasons for this rating are set out in the following paragraphs.**

## Principal findings

### Governance

- 1.3 We noted that the work of the Board and its Committees was undertaken in accordance with an agreed timetable with a clear agenda and a commitment to provide the necessary detailed reports to enable members to take informed and timely decisions. Regular reports were also provided to the Council’s officers and the Council’s Executive as required.
- 1.4 SHL is continuing to review its governance arrangements to ensure that they meet the needs of the company going forward. To support this review we also undertook an assessment of some specific aspects of governance during 2009/10 and raised seven recommendations, which were aimed to assist SHL as the company seeks to meet best practice going forward. None of these recommendations were high priority.
- 1.5 Risk management has developed steadily during the financial year and the key risks continue to be set out in a strategic risk register, which is reviewed regularly by the Executive Management Team (“EMT”) and the Audit Committee in the first instance before being approved by the Board.
- 1.6 A new Chief Executive and Director of Property Services were appointed during the year, strengthening the EMT and replacing interim appointments to these posts. However, the Finance and Compliance Director departed in November 2009. The impact of this is being managed through the appointment of an Interim Finance and Compliance Director supported by an Interim Head of Finance until a permanent appointment can be made.



### Business processes

- 1.7 The company's business support functions such as performance management and recruitment and retention were operating effectively in most respects at the time of our review of these areas in July 2009.
- 1.8 We understand that enhancements have been introduced since that time and our recommendation in relation to the implementation of SHL's people strategy (including recruitment and retention matters) has already been implemented.
- 1.9 We noted that the company adopted the *Uimprove* methodology during 2009/10 to achieve organisational improvement and further developments to performance management are to be progressively introduced during 2010/11. We understand that these will include the areas where we noted that there was scope for improvement in our report, in particular updating the performance management strategy and the presentation of performance reporting on the company website.
- 1.10 Core business processes such as managing the Decent Homes contracts and allocations and voids management operated effectively in most respects, although management is enhancing these by strengthening controls in accordance with our recommendations.

### Financial arrangements

- 1.11 SHL's arrangements for reviewing the Housing Revenue Account ("HRA") and company budgets improved during 2009 and it is evident that the Budget Review Group enabled the Board members to keep more regularly in touch with the various changes to budgets as they were being made for the 2010/11 budget setting cycle. Management also provided reconciliations between the various versions of the budget for 2010/11 and explanations of the amendments to committee meetings.
- 1.12 Nevertheless, we noted that the trail of adjustments between versions of the budgets was still not always easy to follow for Board members and because some aspects were under negotiation at the time of some Budget Review Group meetings, management were not always able to provide full answers to questions raised. This was exacerbated by changes in personnel within the Finance Team mid way through the budget setting cycle.
- 1.13 We noted that enhancements were made to the budget setting arrangements at SHL for the 2010/11 budget setting cycle and further improvements to business planning software are already planned to be introduced 2011/12. These need to be implemented to enable financial modelling and budget setting to be undertaken more effectively and with a clearer audit trail in the future. SHL also needs to find a way to respond to the Council's requirements and committee timetable for budget setting and approval in spite of any delays arising in relation to the housing subsidy determination.

- 1.14 We noted that the controls over those aspects of financial processing undertaken by SHL were generally operating effectively. However, our investigation into the procurement of sub-contracted works in relation to planned maintenance and responsive repairs indicated that for lower value expenditure items, Contract Standing Orders were not always being followed and the documentation to confirm that quotations had been sought when required was not always evident.
- 1.15 We are also aware that this area of expenditure is currently subject to a further review by management with the support of PKF's Forensic Team, which may result in evidence of further departures from required procedures.
- 1.16 However, we understand that controls have been strengthened since our investigation and we noted that a report on these improvements has been provided to the Audit Committee.

#### **Assurance**

- 1.17 Now that the new internal audit arrangements have been in operation for over a year we believe that the opportunity needs to be taken to clarify the assurance regime so that Board members can be certain that they are receiving all of the information that they require.
- 1.18 At present, there appears to be some duplication of work between the Council's internal auditors and our work and more importantly, the SHL Audit Committee does not routinely receive copies of the reports produced by the Council's internal auditors on those aspects of SHL's financial processing that are undertaken on its behalf by the Council. These matters need to be addressed.

#### **Action on past recommendations**

- 1.19 Finally, we were pleased to note that our key recommendations from 2008/09 have been implemented, although as would be expected the controls over some important areas such as major works contract management continue to be subject to review and enhancement by management. These recommendations are set out in Section 5 of this report.
- 1.20 The detailed findings and recommendations from our work are contained in the individual audit project reports, which have previously been provided to management and the Audit Committee during the year. The key recommendations from our review work during the current year are included, for ease of reference, in Section 4 of this report.
- 1.21 We would like to take this opportunity to thank the members of staff and management at the SHL for their co-operation and availability during our audit reviews.
- 1.22 This report has been prepared as part of the internal audit of SHL under the terms of our contract for the provision of internal audit services. It has been prepared for SHL and we neither accept nor assume any responsibility or duty of care to any third party in relation to it.

- 1.23 The conclusions and recommendations are based on the results of the audit work carried out and are reported in good faith. However, our methodology relies upon explanations by managers and sample testing and management should satisfy itself of the validity of any recommendations before acting upon them.

**PKF (UK) LLP**  
**May 2010**

## 2 Context of our audit

- 2.1 SHL is an Arms Length Management Organisation (“ALMO”) that was set up in October 2006.
- 2.2 The company is wholly owned by the Council and is limited by guarantee. SHL is responsible for managing and maintaining over 8,300 homes for the Council including housing allocation, rent collection, leasehold management and repairs under the terms of a management agreement.
- 2.3 The company is also managing a significant investment programme to deliver the Decent Homes Standard. Each year SHL agrees a delivery plan with the Council that sets out the strategic objectives of the company.
- 2.4 The company is run by a Board of directors that includes three tenants, one leaseholder, four Council members and four independent people in accordance with the requirements of its Memorandum and Articles of Association.
- 2.5 The SHL Board has established an Audit Committee, which has responsibility for overseeing the internal control and risk management framework of the company.
- 2.6 Day to day the company is run by the Chief Executive and the Executive Management Team (“EMT”) comprising the Chief Executive and three directors. There were some important changes to the EMT during 2009/10. A new Chief Executive and a new Director of Property Services were appointed. The Finance and Compliance Director departed and an interim appointment came into post, supported by an interim Head of Finance.
- 2.7 The Council has approved and adopted a Local Code of Corporate Governance which reflects the CIPFA Framework – Delivering good governance in Local Government. This includes the requirement for the Council to produce an annual governance statement setting out how it meets its responsibilities for ensuring that there is a sound system of internal control and which includes arrangements for the management of risk. As a company that is wholly owned by the Council, SHL is required to produce a governance statement that supports the Council’s overall statement.
- 2.8 We were appointed as SHL’s internal auditors in November 2008. The audit programme for 2009/10 was the second year of our strategic plan. Our programme of work was undertaken in accordance with International Internal Audit Standards and therefore sought to provide assurance to SHL in relation to the key risks facing the company as identified through SHL’s developing risk management framework. We understand that the Council’s internal auditors have also completed some work on SHL’s financial systems during 2009/10 and have provided a separate assurance report thereon.

2.9 The terms of reference for our appointment are set out in our contract with SHL. Our work programme for 2009/10 was approved by the Audit Committee in February 2009 with these requirements in mind. The areas that we reviewed and the assurances provided by our detailed work are set out in the following section of this report.

### 3 Assurances from our detailed work 2009/10

Review Area	Number of Recommendations	Final Report Date	Assurance opinion
Recruitment and retention	1	July 2009	Adequate in most respects
Performance management	3	July 2009	Adequate in most respects
Major contract management	1	September 2009	Adequate in most respects
Governance	7	November 2009	Adequate in most respects
Allocations and voids management	1	January 2010	Adequate
Financial management	4	March 2010	Adequate in most respects
Financial processing	3	May 2010	Adequate in most respects
Overall assurance	n/a	May 2010	Adequate in most respects Conclusions included in this report

In addition to the programme summarised above, we also undertook an investigation into procurement of sub-contractors for responsive repairs and planned maintenance in November 2009. The findings of this review including 3 recommendations for improvement were reported separately to the Audit Committee.

## 4 Key recommendations from our 2009/10 programme

System	Recommendation	Responsible Officer	Due Date
<b>Recruitment and retention</b>	The timetable for the completion of the people strategy and its individual components should be reviewed to ensure that it is realistic and consistent with other associated human resources projects.	Human Resources Manager	<b>September 2009</b>
<b>Performance management</b>	The performance management strategy should be reassessed once again later in the financial year to ensure that it continues to meet the expectations and needs of management, Board members and stakeholders.	Business Excellence Team/ EMT	<b>December 2009</b>
	The performance data that is published on the company's website should be reviewed to ensure that it meets the requirements of residents.	Business Excellence Team/ EMT	<b>September 2009</b>
	SHL should consider the costs and benefits of further automating the arrangements for collecting its performance data and reducing the level of manual input that is currently required for effective reporting.	Business Excellence Team/ EMT	<b>September 2009</b>





System	Recommendation	Responsible Officer	Due Date
Governance	SHL should consider the current membership of its Board to determine whether there are sufficient members available to meet the requirements of the company going forward.	Governance, Compliance and IT Manager	June 2010
	SHL should begin to establish the steps that they propose to take to review the management agreement. This should also include updating the detailed schedules underpinning the agreement to reflect current practice.	Governance, Compliance and IT Manager	March 2011
	The work to prepare a consolidated source of financial procedural guidance for SHL should now be completed.	Head of Finance	June 2010
	Individual Board members should be required to formally sign up to the SHL Code of Conduct at the next available Board meeting.	Governance, Compliance and IT Manager	Implemented January 2010

System	Recommendation	Responsible Officer	Due Date
<b>Major contract management</b>	The updated arrangements agreed with SBC's internal auditors for ensuring that invoices and valuations submitted for approval should be reviewed after two months have passed in order to ensure that a clear audit trail back to the required supporting documentation is being provided and the level of matters that need further explanation is considerably reduced.	Strategic Manager - Major Works	<b>November 2009</b>
<b>Allocations and voids management</b>	A data quality assurance process should be established to check on a sample basis, the documentation held for each household recorded on the housing register. For practical purposes this should be included within the annual review of the housing register that is already planned.	Business Manager Income Maximisation	<b>March 2010</b>

System	Recommendation	Responsible Officer	Due Date
Financial management	The target level of HRA working balances and SHL company balances should be clarified and clearly minuted by the Council and SHL.	Interim Finance and Compliance Director	September 2010
	SHL should review its budget setting timetable jointly with the responsible managers/ portfolio holders at the Council to limit any disruption to the Council's own committee timetable enabling SHL's reputation with SBC to be managed more effectively in the event of delays in receiving information from Government.	Interim Finance and Compliance Director	September 2010
	The sensitivity analysis included in the MTFs should also include detailed consideration of those areas that are likely to form a significant part of the discussions between SHL and the Council when setting the HRA budget, including the likely outturn on the HRA for the current year, deliverability of efficiency targets and the (albeit reducing) capacity of SHL's reserves to provide support to HRA working	Interim Finance and Compliance Director	July 2010

	balances.		
	SHL should review its approach to delivering and reporting efficiency targets to ensure that it is able to respond to the potentially tough financial challenges in future years.	Interim Finance and Compliance Director	<b>September 2010</b>

System	Recommendation	Responsible Officer	Due Date
<b>Financial processing</b>	SHL's Audit Committee should determine and approve the scope of work required in relation to those aspects of financial processing undertaken by SHL to provide the necessary assurance to its Board members.	Audit Committee	<b>June 2010</b>
	SHL should request and be provided with copies of all reports prepared by SBC's internal auditors that relate to systems and controls at the Council that process SHL data.	Interim Finance and Compliance Director	<b>June 2010</b>
<b>Planned maintenance and responsive repairs procurement investigation</b>	"Client side" management oversight of the award of such works needs to be strengthened considerably to ensure that decisions not to undertake the works through the BMO are subjected to tighter control and that Contract Standing Orders are complied with. In future all works that are not to be undertaken by the BMO should be signed off by a manager from with the Property Services Directorate.	Director of Property Services	<b>December 2009</b>
<b>Planned maintenance and responsive repairs procurement investigation</b>	Management should investigate further to determine whether this practice is more widespread and other sub-contractors are involved. The total value of works that have been sub-contracted that could potentially have been undertaken by the BMO should be confirmed. The extent to which Contract Standing Orders rules may have been	Director of Property Services	<b>December 2009</b>

	breached also needs to be confirmed.		
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System	Recommendation	Responsible Officer	Due Date
<b>Planned maintenance and responsive repairs procurement investigation</b>	Management must ensure that the competition requirements of SBC's Contract Standing Orders are enforced and that due consideration is given to value for money (and documented) when sub-contractors are appointed. Officers should also be reminded that it is a potential disciplinary matter to fail to comply with Contract Standing Orders.	Director of Property Services	<b>December 2009</b>

## 5 Follow up of our key recommendations from 2008/09

System	Recommendation	Status	Due Date
Health & safety	A detailed review of the overall governance structure for health & safety matters should be undertaken at SHL to ensure that any duplication of action is removed and there is a clearer link between committee membership and activity and the responsibilities specified in the company's policies and procedures.	Implemented	July 2009
	SHL's Crisis Management Plan should be reviewed against the likely scenarios that SHL may have to deal with, without recourse to the Council's Emergency Plan. These should be specified in the SHL plan (to avoid the potential for confusion over responsibilities), together with the information necessary for the Crisis Centre to deal with such incidents. This work should be completed as a priority.	Implemented	March 2009
	Management needs to ensure that no further slippage arises in the timetabled work to finalise SHL's business	Implemented	September 2009



	continuity plans.		
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System	Recommendation	Status	Due Date
<b>Housing rents systems</b>	Senior management within the Income Maximisation Team should document more clearly their satisfaction that the correct rents receivable have been included in the Northgate system at the start of the financial year.	Implemented	<b>June 2009</b>
	A senior manager within the Income Maximisation Team should contact the Benefits Team at the Council and seek to agree a timetable with them for resolving the longstanding items that remain in the Northgate suspense account.	Implemented	<b>April 2009</b>
<b>Major works contract management</b>	The procurement process for the appointment of major works contractors should be reviewed in the light of the performance issues experienced with some of the contractors appointed to deliver the internal works contracts.	Implemented, although procedures continue to be subject to ongoing review	<b>September 2009</b>
	All appointed major works contractors should be required to demonstrate how they propose to assist SHL in achieving its efficiency target. Progress that they make against these proposals should be monitored throughout the year.	Implemented, although reporting of efficiency targets is currently under review	<b>September 2009</b>

System	Recommendation	Status	Due Date
<b>Planned maintenance and responsive repairs</b>	Management's planned review of the reactive maintenance workload should be completed as a priority and the results (including any efficiencies identified) should be reported to the Resources Committee.	Implemented	<b>September 2009</b>
	A detailed report on progress with the planned maintenance programme and contractual performance should be provided at committee level so that Board members can be satisfied that the programme is now being delivered as required.	Implemented	<b>September 2009</b>
	Communications with residents through the newsletter, the website and Federation of Stevenage Tenants Associations ("FOSTA") meetings should be reviewed to ensure that residents are provided with clear and up to date information as to when their area will be included in the planned maintenance programme.	Implemented	<b>July 2009</b>

## 6 Assurance definitions

Assurance Level	Rating Score	Definition
Sound	5	Adequate design of internal control that addresses risk and meets best practice and is operating as intended.
Adequate	4	Adequate design of internal control that addresses the main risks but falls short of best practice and is operating as intended.
Adequate in Most Respects	3	Generally adequate design of internal control that addresses the main risks and is operating as intended but either has control weaknesses or is not operating fully in some significant respect.
Adequate Except For.....	2	Adequate design of internal control that addresses the main risks and is operating as intended in most respects but with a major failure in design or operation in the specified area.
Inadequate	1	Major flaws in design of internal control or significant non operation of controls that leaves significant exposure to risk.



**STEVENAGE HOMES**

**ASSURANCE STATEMENT**

**FOR THE YEAR ENDED 31 MARCH 2010**

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## EXECUTIVE SUMMARY

### *Introduction*

This report has been compiled to document and communicate an opinion based on the work undertaken by Internal Audit in relation to the Key Financial Systems used by Stevenage Homes during 2009/10.

Our Audit Assurance report has been structured to:

- Summarise Internal Audit Key Financials activity for 2009/10;
- Draw attention to matters of particular concern, especially via individual assurance opinions; and
- Highlight areas requiring the specific attention of the Board.

The Board shall be responsible for ensuring that the financial management of Stevenage Homes is adequate and effective.

### *Use of Chief Internal Auditors Opinion*

The opinion statement is provided for the use of Stevenage Homes in support of the annual governance statement and the statement of accounts for the year ended 31 March 2010.

### *Scope of Responsibility*

The management of Stevenage Homes is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this overall responsibility, the management of Stevenage Homes is also responsible for ensuring that there are sound Key Financial Systems in place which facilitate the effective exercise of its functions.

### *Derivation of Chief Internal Auditor's Annual Opinion*

Our opinion is derived from work undertaken by Internal Audit in relation to the Financial Systems used by Stevenage Homes during 2009/10, as part of the agreed internal audit plan for 2009/10.

### *Basis of Assurance*

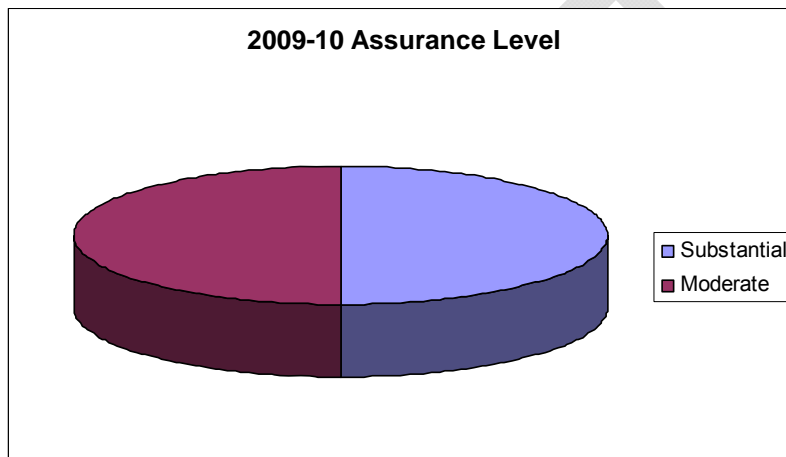
We have conducted our audits both in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006, and additionally from our own internal quality assurance systems. This programme of work is outlined at **Appendix 1**.

The programme of work has been undertaken by suitably experienced and qualified auditors.

Our opinion is limited to the work carried out by Internal Audit during the year on the effectiveness of the management of principal risks, identified within the Key Financials Internal Audit programme and the interim contract payment probity checks.

#### *Audit Assurance Opinions*

The Key Financial Systems audit work that was completed for the year to 31 March 2010 is listed in **Appendix 1**. It shows the audits and their results in terms of the audit assurance level provided, together with the number of recommendations raised. The levels of assurance achieved on the Key Financial systems audited by Internal Audit are depicted in the chart below.



Two key financial systems, Sundry Debtors and Creditors, were given a moderate assurance opinion and another two systems, Main Accounting and Payroll, were given a substantial assurance opinion.

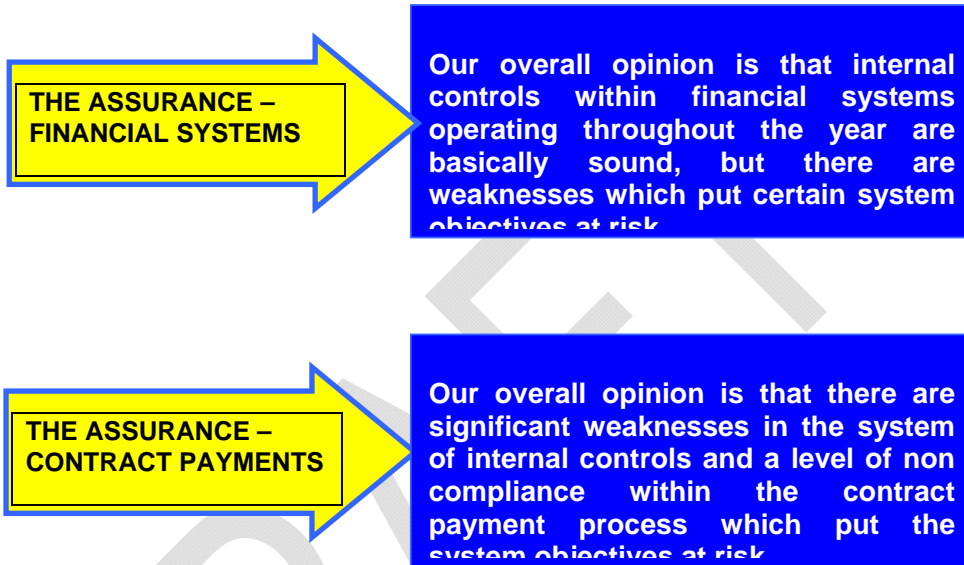
In addition, during 2009/10 reservations were placed on the system of internal control in relation Stevenage Homes processing of the Decent Homes interim contract payments on behalf of the Council.



2009/10 Year Opinion

From the Internal Audit work undertaken in 2009/10 it is our opinion that we can provide **Moderate Assurance** the Key Financial Systems that are in place at Stevenage Homes for the year ended 31 March 2010, accord with proper practice.

From the Internal Audit work undertaken in 2009/10 it is our opinion that we can provide **Limited Assurance** on the interim contract payment process.



We would like to take this opportunity to formally record our thanks for the co-operation and support we have received from the management and staff during the year.

*Gursh Bains*

**CHIEF INTERNAL AUDITOR**

**June 2010**

## DETAILED REPORT

### *Introduction*

This section is a report from Internal Audit detailing:

- any significant control failures or that have arisen and been addressed through the work of Internal Audit;
- any qualifications to the Chief Internal Auditor opinion on Stevenage Homes Key Financial Systems, with the reasons for each qualification;
- the Internal Audit Key Financial Systems work undertaken during the 2009/10 year.

### *Significant Control Weaknesses*

Internal Audit is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise. Based on the work undertaken by Internal Audit in relation to the Key Financial Systems used by Stevenage Homes (see Appendix A) and the probity checks on the interim contract payments during 2009/10 the following significant control weakness was identified.

There have been instances of non compliance with Contract Standing Orders. As a number of interim valuations in respect of staged payment contracts have not been submitted to Internal Audit for checking before being sent to Exchequer for payment, contracts were identified not to be in place before the commencement of works, capital contracts were sealed in the name of Stevenage Homes and not the Council. There were significant control weaknesses in relation to contract variations, the claiming of contract discounts, duplication of charges, payments exceeding the authorised value of the signatory, lack of legal expertise in tendering process and the lack of written procedures.

### *Qualifications to the Opinion*

Internal Audit has had full access to all the Key Financial Systems across Stevenage Homes and has received appropriate co-operation from officers and members.

### *Internal Audit Assurance Levels and Recommendations*

A table is provided at **Appendix 1** setting out the level of assurances given on each audit, as well as the number and priority of recommendations raised and agreed.

The table also has details of the priority we give to our recommendations, together with the total number of recommendations made. 5% of recommendations made were high priority, 68% were medium priority and 27% were low priority.

Two key financial systems, Sundry Debtors and Creditors, were given a moderate assurance opinion and another two systems, Main Accounting and Payroll, were given a substantial assurance opinion.

### *Internal Audit Quality Standards*

Internal Audit has comprehensive quality control and assurance processes in place that comply with the best practice standards established by CIPFA and the IIA.

## APPENDIX 1

### ASSURANCE OPINIONS AND RECOMMENDATIONS 2009/2010

*The table below summarises the assurance opinion assigned to each individual system, an analysis of the number of recommendations made in each priority category and the total number of recommendations.*

**TABLE OF 2009-10 SHL KEY FINANCIAL SYSTEMS AUDIT ASSURANCE OPINIONS AND NUMBER OF RECOMMENDATIONS**

AUDIT AREA	ASSURANCE <sup>1</sup>					RECOMMENDATIONS			
	F	S	M	L	N	Priority <sup>2</sup>			Total
						H	M	L	
Sundry Debtors			√			0	7 (1)	2 (1)	9 (2)
Creditors			√			1 (1)	3 (1)	0	4 (2)
Main Accounting		√				0	2	1	3
Payroll		√				0	1	3	4
<b>TOTAL</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>13</b>	<b>6</b>	<b>20</b>

Note the figures in brackets in the priority columns identify the number of recommendations made to the Council's processing unit that have an impact on Stevenage Homes. The Council are responsible for implementing the four recommendations identified as falling into this category.

Stevenage Homes are responsible for implementing 16 of the 20 recommendations identified in the above table, these recommendations have been reported to Stevenage Homes management in the following two reports:

- Key Financial Systems
- Payroll

<sup>1</sup> See page 7 for definition of Assurance Opinions

<sup>2</sup> See Page 8 for definition of Priority Categories

## Assurance Levels

In order to assist management in using our reports:

We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls.

### **Full Assurance**

**Evaluation opinion:** there is sound system of control designed to achieve the system objectives; and  
**Testing opinion:** the controls are being consistently applied.

Full Assurance will be attributed to a system where no recommendations are made or where in the auditor's judgement the recommendations relate to actions that are considered desirable and which should result in enhanced control or better value for money.

### **Substantial Assurance**

**Evaluation opinion:** basically a sound system but there are weaknesses which put some of the control objectives at risk, and/or;  
**Testing opinion:** there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Substantial Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered necessary to avoid exposure to significant risks.

### **Moderate Assurance**

**Evaluation opinion:** basically a sound system of control but there are some more significant/serious weaknesses which put system objectives at risk, and/or;  
**Testing opinion:** the level of non-compliance with some controls may put certain system objectives at risk.

Moderate Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered necessary to avoid exposure to more significant risks.

### **Limited Assurance**

**Evaluation opinion:** weakness in the system of controls are such as to put the system objectives at risk, and/or;  
**Testing opinion:** the level of non-compliance puts the system objectives at risk.

Limited Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered imperative to ensure that the Council is not exposed to high risks.

### **No Assurance**

**Evaluation opinion:** control is generally weak leaving the system open to significant error or abuse, and/or;

**Testing opinion:** significant non-compliance with basic controls leaves the system open to error or abuse.

No Assurance will be attributed to a system where in the auditor's judgement they can place no reliance of the controls and procedures in operation either because they do not exist or because they are weak leaving the system open to abuse or error

## Priority Categories

We categorise our **recommendations** according to their level of priority and we consider the level of risk associated with the weaknesses identified.

- High** Recommendations relate to major issues that have a significant impact on achieving service objectives and are to be implemented immediately or within one month where practical.
- Medium** Recommendations relate to issues that are expected to impact on achieving service objectives and are to be implemented within two months where practical.
- Low** Recommendations relate to issues that have a lesser impact on achieving service objective and are to be implemented within six months where practical.