

## **South Essex Homes Annual Governance Statement 2016/17**

### **1. Scope of responsibility**

#### **South Essex Homes**

South Essex Homes (SEH), formed in October 2005, is the Arm's Length Management Organisation of Southend-on-Sea Borough Council, responsible for the management and maintenance of the Council's homes. It was financed by a Management Fee in 2016/17, from the Council, of £5,877k, a Service Charge Fee of £3,382k together with income from external organisations of £652k.

There is a formally binding Management Agreement between the Council and SEH and this clearly sets out the governance arrangements that should apply between the two parties. This complies with national best practice.

SEH is managed by a Board comprising three Council nominees, three tenants and five independent members. The Board is ultimately responsible for ensuring that SEH establishes and maintains a sound system of internal control appropriate to the various business environments in which it operates. Committees reporting to the Board include Audit Committee and Personnel and Remuneration Committee. In addition, the commercial subsidiary –South Essex Property Services Ltd (formerly Atilius Limited) reports directly to its parent company.

### **2. The purpose of the Governance Framework**

Good governance leads to good management, good performance, good stewardship, good public engagement, and ultimately good outcomes for citizens and service user. Good governance enables the Company to pursue its vision effectively, as well as underpinning that vision with mechanisms for control and management of risk.

The governance framework comprises the systems, processes, culture and values, by which the Company is directed and controlled and its activities through which it accounts to, engages with and serves the community. It enables the Company to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Company's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

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### 3. The Governance Framework

The Key elements of the Governance Framework are:

Consultation and Engagement

Business Planning and Strategy

Financial Reporting inc budgetary management

Asset Management

Risk Management including Anti-fraud and Corruption, Whistle blowing and health and safety

Business Continuity

Performance Managing, service delivery and people

Information Management Security

Procurement

Project Management

Complaints

Ethical Governance including Codes of Conduct

Data Quality

Workforce Management

- Corporate governance arrangements which are outlined in The Articles of Association, Code of Governance and Financial Regulations and Scheme of Delegation.
- The employment of suitably qualified and experienced staff to take responsibility for key areas of the business. This is supported by a formal appraisal system.
- The preparation of forecasts and budgets that allow the Committees and the executive officers to monitor the key business risks and financial objectives and identify variances arising during the monthly reporting cycle.
- Business planning that cascades through the organisation, supporting Service Plans and key actions to enable SEH to achieve its ambitions and aspirations as set out in the Vision 2022 Business Plan.
- The regular reporting and review by senior management and the Board of performance against objectives and targets detailed in service plans.

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- The Board has two Committees which review and scrutinise delegated work from the Board in accordance with the Terms of Reference.
- The Company operates a development and training programme for the Board Directors developed from appraisals and one to ones and Committee self-assessment which are carried out annually.
- South Essex Homes ensures that the Board Directors are fulfilling their responsibility under Companies Act 2006 for adequate risk management, control and governance. The Audit Committee has a key role in overseeing and assessing the risk management arrangements and reporting to the Board on an exception basis.

#### **4. Review of Effectiveness**

South Essex Homes is responsible for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Chief Executive, Executive Director, the Director of Finance and Group Managers within the Company who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by external auditors and other review agencies and inspectorates.

The Council's processes to review on-going effectiveness of SEH include Council officers meeting with SEH officers on a monthly basis to review performance against a suite of performance indicators and its strategic aims as follows;

- Deliver Value to the Council
- Empower Residents
- Manage High Quality Homes
- Provide Excellent Services
- Engage with Communities
- Develop our Commercial Activities

SEH's internal arrangements for ensuring the effectiveness of its governance arrangements consist of;

- The SEH Board receiving monthly performance reports across operational, human resources and value for money indicators;
- The Audit Committee undertaking a review of the Risk Management Strategy and the Strategic Risk Register to ensure that Risks are

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relevant and applicable and that the Board Members are responsible for ensuring that Risks are monitored effectively by the Senior Management Team.

- The Audit Committee undertakes a review of both its effectiveness as well as the operational arrangements.
- The production and approval of annual Manager Assurance Statements by service managers and Group Managers to assess compliance with key governance processes throughout the year;
- The Group Manager for Resources and Business Development then independently checking that the evidence supports the service manager's assessment of how well each of the business management processes have operated in their area.
- The Company undertaking a review of Tenancy Services, Careline Services and Property Services during 2016/17. A number of actions were identified to improve the service and the Board receive an update on exceptions at each meeting on progress against actions.
- South Essex Homes continuing to review and adjust staffing structures aligning them with the services provision and the Business Plan Vision 2022.

### **Internal Audit**

Internal Audit is delivered through a Service Level Agreement with the Council's Internal Audit Services. The Charter, Strategy and risk based Audit Plan is prepared in consultation with The Executive Management Team and approved by the Audit Committee.

The Audit Plan was delivered with reports issued to senior managers at the conclusion of each audit highlighting internal control weaknesses identified and the actions required to address them. Action plans from audit reports were revisited if the control weaknesses identified were more significant (e.g. where a partial or minimal assurance opinion was given). A quarterly performance report was taken to each Audit Committee.

The Head of Internal Audit Annual Report and opinion for 2016/17 was considered by senior management and the Audit Committee in May 2017. This stated that:

Overall, the risk management, control and governance framework designed by the company to deliver its objectives; and operated throughout the year, has remained satisfactory.

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The opportunity to strengthen the arrangements for letting and managing contracts, has been identified and is being addressed by the company".

The Head of Internal Audit also concluded that the company's Internal Audit service had substantially conformed to the UK Public Sector Internal Audit Standards throughout the year.

Internal Audit continues to make available its work as required to support the external audit of the company's Statement of Accounts.

The company attends the Council's June Audit Committee each year to present the following evidence with regard to its governance arrangements:

- Head of Internal Audit Annual Report
- Audit Committee Annual Report
- Annual Governance Statement.

### **External Audit**

The External Audit of the annual financial statements was undertaken by Scrutton Bland with the view to expressing an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland).

In carrying out the audit work Scrutton Bland considered whether the financial statement were free from 'material misstatement'. Materiality is an expression of the relative significance of a particular matter in the context of the financial statements as a whole. An item will normally be considered material if its omission would reasonably influence the decisions of those using the financial statements.

Scrutton Bland issued a report to management at the conclusion of the audit work. This included a management letter containing comments and recommendations for improvements in operations and internal control in respect of the Company. This was discussed with management prior to the issue of the final report. The report also includes details of significant adjusted and unadjusted items that arose as a result of the audit work.

The Audit Committee consider the external auditor's report and recommends adoption of the financial statements to the Board.

### **Key Governance Issues**

The main areas for further work identified through the Governance Assurance Process in 2016/17, and which should be disclosed in the Governance Statement Action Plan is;

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- **South Essex Property Services** - To review the arrangements between South Essex Homes and South Essex Property Services and update the Inter Company agreement to reflect the implementation of the hosting employee hosting arrangements between the two organisations.
- **General Data Protection Relation Act (due for release April 2018)** – To develop the Policies and Procedures to align our business arrangements to full compliance with the amended Data Protection Act.
- **Contract Management** –To strengthen and develop the procedures for letting and managing the contracts and where appropriate, provide additional training in order to enhance skills and knowledge in this area.