

South Essex Homes Annual Governance Arrangements Assessment 2010/11

1. Scope of responsibility

South Essex Homes

South Essex Homes (SEH), formed in October 2005, is the Arms Length Management Organisation of Southend-on-Sea Borough Council, responsible for the management and maintenance of the Council's homes. The 2010/11 Management Fee payable to SEH from the Council for such services was £9.285 million.

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 five Council nominees, five 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, Performance Committee, Personnel and Remuneration Committee and Investment and New Business Committee (INBC), who have formal, approved Terms of Reference.

SEH exercises control through:

- Corporate governance arrangements outlined in Memorandum and Articles of Association, Code of Governance and Financial Regulations.
- 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 based upon a balanced scorecard approach that cascades through supporting Service Plans and a Plan for Excellence that sets out key actions to enable SEH to achieve its ambitions and aspirations as set out in the Towards Excellence Strategic Vision.

The regular reporting and review by Executive Management and the Board of performance against objectives and targets detailed in service plans.

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2. The purpose of the governance framework

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 a reasonable 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.

3. 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 Executive Directors 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;

- Ensure fair and equal access to excellent services for all our residents and business customers.
- Bring all homes up to the Decent Homes Standard by 2014 and ensure they continue to be maintained at a level that meets residents' expectations.

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- Contribute to meeting housing need and increasing the supply of affordable homes locally.
- Increase the local customer base to create a healthy, sustainable future for our business.
- Further develop the Company's contribution to local neighbourhoods to improve the quality of life for our residents.
- Promote environmental sustainability and minimise the negative impact we have on the climate.

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 and Performance Committees considering Internal Audit reports throughout the year, as well as reviewing how well strategic risks are being identified and managed;
- The production and approval of annual Manager Assurance Statements by service managers and group manager to assess compliance with key governance processes throughout the year;
- Internal Audit challenging a sample of Manager Assurance Statements and giving a view as to whether they can be relied upon to accurately reflect the robustness of the company's arrangements throughout the year.

Internal Audit

Internal Audit is delivered through a Service Level Agreement with the Council's Internal Audit Services. The risk based audit plan is prepared in consultation with Executive Management and approved by the Audit Committee. This work includes checking that recommendations contained in audit reports are implemented properly by the due date.

The Head of Internal Audit prepares an annual report that included an overall opinion on SEH's internal control environment based on the results of the audit work completed.

SEH's financial statements are subject to external audit. Where the external auditor identifies any weaknesses these are reported to those charged with governance. The Audit Committee consider the external auditor's report and recommend adoption of the financial statements to the Board.

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The Company provided the Council with the following assurance regarding the robustness of its governance arrangements:

- Internal Audit reports;
- Summary results of Manager Assurance Statements;
- Head of Internal Audit annual report (including an opinion on the effectiveness of the company's systems of internal control); and
- Audit Committee Annual Report.

The control environment within individual service areas reviewed were generally sound with the exception of this year of Hostels and the management of the Grounds Maintenance Contract.

Going forward, the Company needs to consolidate its arrangements for ensuring that its strategic objectives are clearly cascaded through service plans to individual performance targets. This would provide assurances that all the Company's resources are effectively focussed.

External Audit

External Audit is undertaken by Price Waterhouse Cooper (PWC) who review the design of controls in place within the core financial systems if relevant to their audit opinion. Where the auditor identifies weaknesses in the Council's arrangements, these are highlighted in the Final Report to Those Charged with Governance.

The auditors also review the arrangements in place for securing data quality and value for money, as well as internal control arrangements such as risk management. These are key elements of the use of resources audit. This is reported to the Audit Committee, together with an action plan to address any concerns and an update of outstanding issues from previous action plans.

Therefore the main areas for further work in 2011/12, and which should be disclosed in the Governance Statement Action Plan are;

- **Business Continuity:** Confirm Southend Borough Council has developed robust business continuity plans for all aspects of the company's activity. These should be tested by the company where it can do so and the results reviewed as soon as possible.
- **Risk Management:** There needs to be more consistent application of the company's agreed approach to phrasing

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risks (i.e. to clearly to set out cause, event and impact of a risk occurring). This was also identified through the Business Planning review and improvement action is well advanced to re-phrase risks.

- **Business Planning:** To provide greater assurance corporate aims will be, and are, being achieved, more explicit links should be made between strategic aims, their risks, required actions and performance measures.
- **Financial Management:** To develop a longer term financial plan that demonstrates how the longer term strategic vision and objectives are going to be resourced and therefore delivered.