

South Essex Homes Annual Governance Statement 2012/13

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. It is financed by a Management Fee in 2012/13, from the Council, of £9,778million, together with income from external organisations of £509k.

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

Good governance leads to good management, good performance, good stewardship, good public engagement, 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 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, 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;

- **Ensure fair and equal access to high quality services**

- **Achieve best value from the investment in residents homes and services**

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- **Contribute to meeting housing need and increasing the availability of affordable homes locally**
- **Use our resources responsibly and to the maximum benefit of our customers and community**
- **Contribute to building vibrant, resilient and proud communities**
- **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 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. Recommendations were also reviewed to ensure they were implemented properly, by the due date. A quarterly summary audit report was taken to the Audit Committee.

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. This was considered by the Audit Committee

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Internal Audit performance is subject to annual review by the external auditor of the Council and the company in order that they can place reliance on its audit work. Internal Audit also share the results of the statutory annual assessment of compliance with the CIPFA: Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 with the company.

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

- 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 main area highlighted by Internal Audit during the year, where further work is required to improve the arrangements relates to information management.

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 on the Company's financial statements. 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.

Key Governance Issues

The main areas for further work identified through the Governance Assurance Process in 2012/13, and which should be disclosed in the Governance Statement Action Plan are;

- **Business Planning:** The Company needs to ensure a consistent approach to business planning, which identifies the future scope for the organisation once the Council's Task and Finish Group have completed its review. This will link to the strategic aims of the organisation and develops clear actions for the Plan for Excellence and put in place a regular monitoring process.

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- **Fraud and Corruption:** Introduction of on line training to reinforce and further embed the culture of anti-fraud and corruption. The whistle blowing element of anti-fraud and corruption needs to be improved.
- **Disaster Recovery :** South Essex Homes completed the Office Accommodation Disaster Recovery Plan in 2012/13. The Company will be undertaking a test of the plan during 2013/14 which will comply with internal audit recommendations. It is anticipated that a test will occur prior to 31st July, 2013.

Further Actions to strengthen South Essex Homes' governance arrangements in 2013/14

No	Governance Area	Action to be taken in 2013/14	Date of Implementation	Responsible Officer
1	Business Planning	<p>The Company will ensure a consistent approach to business planning, which identifies the future scope for the organisation once the Council's Task and Finish Group have completed its review.</p> <p>Business planning will demonstrate clear links to the strategic aims of the organisation and develop clear actions for the Plan for Excellence and put in place a regular monitoring process.</p>	March 2014	Mike Gatrell – Chief Executive
2.	Fraud and Corruption	<p>Introduce on line training to reinforce and further embed the culture of anti-fraud and corruption.</p> <p>The whistle blowing element of anti-fraud and corruption arrangements will be reviewed and improved.</p>	March 2014	David Lincoln – Director of Finance
3.	Disaster Recovery	<p>South Essex Homes completed the Office Accommodation Disaster Recovery Plan in 2012/13. The Company will be undertaking a test of the plan during 2013/14 which will comply with internal audit recommendations</p>	31 July 2013	Beverley Gallacher – Support Services Manager