

South Essex Homes Annual Governance Statement 2013/14

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 2013/14, from the Council, of £9,380million, together with income from external organisations of £904k.

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 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 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**
- **Contribute to meeting housing need and increasing the availability of affordable homes locally**

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- **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 Committee considering Internal Audit reports throughout the year, as well as reviewing how well strategic risks are being identified and managed;
- The Audit Committee undertaking a review of both its effectiveness as well as the operational arrangements for the first time.
- 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;
- The Corporate Services Manager then independently checks that the evidence supports the service manager's assessment of how well each of the business management processes have operated in their area.
- Internal Audit auditing these arrangements to evaluate whether the company operates a robust process for assessing how well services have applied the critical business management systems throughout the year.

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. 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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In 2013/14, her opinion was that the governance, risk management and control framework designed by the company in order to deliver its objectives, was good.

Her Annual Report also confirms that:

- an appropriate Quality and Improvement Programme has been maintained during the year
- there has been substantial conformance with the UK Public Sector Internal Audit Standards and the supporting CIPFA, Local Governance Application Note
- she has continued to substantially comply with the requirements CIPFA Statement on The Role of the Head of Internal Audit in Public Service Organisations 2010 in discharging her role as the Head of Internal Audit

The Council's external auditor continues to confirm that internal audit's financial systems work can be relied upon when undertaking the audit of the statement of accounts.

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 adequacy and effectiveness of the company's governance, risk management and control framework ; and
- Audit Committee Annual Report.

External Audit

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 statements 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.

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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 Finance & 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 2013/14, and which should be disclosed in the Governance Statement Action Plan are;

- **Data Protection** - The Company needs to ensure a consistent approach to adhering to the Data Protection Policy, by completing annual development plans for staff members handling sensitive information and ensuring that lessons learned logs are shared throughout the organisation.
- **Service Planning** – The Company will develop a new Mission Statement and robust aims for the future transition of the organisation that will ensure that service plans are consistently adhering to the strategic direction the Company is setting
- **Enhancing the Appraisal Process** – The Company will review the appraisal process by incorporating measures identified by the Task and Finish Group including but not limited to performance management, risk management and value for money to enable a golden thread between appraisals and the newly formed aims and objectives of South Essex Homes.
- **Commercial Subsidiary Governance Arrangements** – The Company has established a Commercial Subsidiary with agreed Articles and Code of Governance. A framework will be designed on delegated levels of authority to include contract values and associated risk to ensure that South Essex Homes has a controlling interest in the future development of Atilius Limited