

# **Colchester Borough Homes Annual Governance Statement 2016/17**

## **1. Scope of Responsibility**

Colchester Borough Homes (CBH), formed in October 2003, is the Arms-Length Management Organisation of Colchester Borough Council (CBC), responsible for the management and maintenance of the Council's homes and transferred general fund services. In 2016/17, these were primarily financed from the Council through a Management Fee of £8,947,948. This fee also includes Property Services professional fees, Corporate Facilities management fee and CBH Revenue work costs. Property Services also manages capital and revenue work costs paid directly by CBC, totalling £6,962,000.

There is a formally binding Management Agreement between the Council and CBH in place until August 2023, with a review in 2020. This clearly sets out the governance arrangements that should apply between the two parties and complies with national best practice.

CBH is managed by a Board comprising four Council nominees, four tenants and four independent members. In discharging this overall responsibility, Colchester Borough Homes is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Three committees report to the Board: Finance & Audit, Governance & Remuneration and Operations. Additionally, there is also a Business Opportunities Panel. These all have formal, approved terms of reference, which are reviewed biennially.

## **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 the 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, 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
- to manage them efficiently, effectively and economically.

The governance framework has been in place at Colchester Borough Homes for the year ended 31 March 2017 and up to the date of approval of the financial statements of accounts.

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Colchester Borough Homes exercises control through:

- Corporate governance arrangements outlined in the Memorandum & Articles of Association, the Code of Governance and the Standing Financial Instructions.
- The employment of suitably qualified and experienced staff to take responsibility for key areas of the business. This is supported by a formal annual 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 is based on a 3 year Medium Term Development Plan that sets out key actions to enable CBH to achieve its goals for the ensuing year. This cascades through supporting Service Plans and individual performance appraisals. The key aims for 2017/18 are:
  - ✓ Maximise the supply of housing to meet local needs
  - ✓ Work with partners and residents to create mixed and sustainable communities which are economically, environmentally and socially healthy and resilient
  - ✓ Prevent homelessness and rough sleeping
  - ✓ Improve the life chances of Colchester's residents including their health and wellbeing
  - ✓ Work with customers to enable them to make informed choices about their housing options
  - ✓ Make the best use of existing homes
  - ✓ Provide healthy, safe and energy efficient homes
  - ✓ Ensure that housing and related services meet a range of specialist needs
  - ✓ Manage and improve the Council's corporate assets
  - ✓ Ensure customers are at the heart of everything we do
  - ✓ Make the most of resources and opportunities

The Executive Management and the Board carry out regular review of performance against objectives and targets detailed in the Medium Term Delivery Plan.

### **3. Review of Effectiveness**

Colchester Borough Homes conducts, at least annually, a review of the effectiveness of its governance framework, including the system of internal control that is in place, and to ensure it is appropriate to support the company's objectives. The review of effectiveness is informed by the work of the Executive Officers and Senior Management Team within the Company, who have responsibility for the development and maintenance of the governance environment. This is supported by the Internal Audit's annual report, and by comments made by external auditors and other review agencies and inspectorates.

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The company produces a Medium Term Delivery Plan every three years, which is refreshed every year. From this plan, Key Performance Indicators (KPIs) and projects are produced. A performance and scrutiny framework is in place to review and monitor delivery against these. This is a combination of company, tenants and CBC scrutiny as well as benchmarking against other providers.

CBH's internal arrangements for ensuring the effectiveness of its governance arrangements consist of:

- The Operations Committee receiving quarterly performance reports.
- The Governance & Remuneration Committee monitoring the implementation of the Governance Action Plan and significant staffing matters.
- The Finance & Audit Committee considering Internal Audit reports throughout the year, reviewing how well strategic risks are identified and managed, and monitoring financial performance against budgets.
- The Finance & Audit Committee monitoring the regular review of key policies against an agreed policy review timetable.
- The production and approval of annual Manager Assurance Statements by service directors and their teams to assess compliance with key governance processes throughout the year.

### **Internal Audit**

Internal Audit is delivered through a contract with Mazars LLP (Mazars). A five-year risk-based Strategic Audit Plan was initially approved by the Finance and Audit Committee in June 2016, following the successful re-appointment of Mazars in April 2016. This is refreshed on an annual basis in consultation with the Directors Management Team. The updated plan was approved by the Finance & Audit Committee in June 2017.

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. Reports were presented to each Finance & Audit Committee of progress against the audit plan as well as the status of outstanding recommendations.

The Head of Internal Audit prepares an annual Head of Internal Audit Opinion (HOIA) report that includes an overall opinion on CBH's internal control environment based on the results of the audit work completed. This was considered by the June 2017 Finance & Audit Committee.

Internal Audit performance is subject to annual review by the external auditor of CBH in order that they can place reliance on its audit work. 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

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- The Annual Report, which incorporates the Head of Internal Audit's annual report (including an opinion on the effectiveness of the company's systems of internal control)

### **External Audit**

External Audit of the annual financial statements is undertaken by Scrutton Bland with a 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 will consider whether the financial statements are 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 will issue a report to management at the conclusion of the audit work. This will include a management letter that will contain comments and recommendations for improvements in operations and internal control in respect of the Company. This will be discussed with management prior to the issue of the final report. The report will also include details of significant adjusted and unadjusted items that arise as a result of the audit work.

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

### **4. Significant Governance Issues from 2015/16 - Update**

In the 2015/16 Annual Report it was stated the need to carry out a disaster recovery test, which was already overdue. Two tests were carried out in the year:

- Communications Test
- IT Access Test

A testing plan is currently being developed with a couple of key operational tests earmarked to take place in 2017/18.

In addition, the Business Continuity Plan (BCP) was formally reviewed and approved by Executive Management in March 2017. This was also subject to an Internal Audit Review which was reported to the June 2017 Finance and Audit Committee. CBH is working closely with CBC to ensure all BCP's across the two organisations are aligned, due to close reliance on each other should the plan need to be activated.

### **5. Significant Governance Issues**

In 2016/17, Internal Audit provided an opinion of Limited Assurance in the following two areas:

- Insurances
- Payroll

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### *Insurance*

The key issue with the insurance audit was regarding the timing of the renewal process. As a consequence of the audit, we have commenced the annual process for 2017/18 a month earlier than previously to ensure adequate review and approval of the insurances recommended by the broker are both fit for purpose and value for money.

### *Payroll*

CBC provide the payroll function on behalf of CBH. In April 2016, CBC commenced the transition to a new system, which resulted in the short-term use of a payroll bureau system whilst the new system was being developed. The inherent risks of the transition ultimately sit with CBC, but CBH are actively managing their risks with CBC to ensure an appropriate control framework is in place to protect its employees and its own reputation.

**Signed:** \_\_\_\_\_  
(Chair of the Board)

**Signed:** \_\_\_\_\_  
(Chair of the Finance & Audit Committee)

**Signed:** \_\_\_\_\_  
(Chief Executive Officer)