



NOTTINGHAM CITY HOMES

REVIEW OF THE BUDGETARY CONTROL ARRANGEMENTS

Report issued: September 2008

Audit Plan: 2008/09

The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Business Assurance

Review of the Budgetary Control Arrangements

- EXECUTIVE SUMMARY -

INTRODUCTION

1. TIAA has reviewed the Budgetary Control arrangements at Nottingham City Homes. The review was carried out in August 2008 as part of the planned internal audit work for 2008/09.

SUMMARY

2. Two Key Risk Control Objectives were identified and tested and based on the findings from this work an overall evaluation of the overall adequacy of the internal controls was established (figure 1 below).

Figure 1 - Evaluation of the Effectiveness of the Internal Controls

System	Evaluation
Budgetary Control	Limited Assurance

KEY FINDINGS

3. The following significant matter was identified which need to be addressed in order to strengthen the control environment.
 - Virement authorisation forms V001, V010 and V026 have not been signed off as per the Financial Authorisation Matrix as listed in the Financial Regulations.

OPERATIONAL EFFECTIVENESS MATTERS

4. The principal purpose of the review was to assess the effectiveness of the internal control arrangements in mitigating against risk. No Operational Effectiveness action points were identified.

MANAGEMENT RESPONSES

5. Effective implementation by management of the recommendations made in this report is important for the maintenance of a reliable internal control system. Recommendations for improvements should be assessed by the Organisation for their full impact before they are implemented. Management responses have been received for all the recommendations made in this review.

MANAGEMENT ACTION PLAN

Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
19.1	Virements made between cost codes are authorised in line with the Financial Regulations.	1	COMPLETE. <i>Controls are in place and procedures for completing virement forms have been reiterated to Finance Officers.</i>	<i>Implemented</i>	N/A
16.1	A budgetary control strategy, which is cross-referenced to the business plan and risk strategy be adopted.	2	<i>There are sufficient controls within financial regulations and the budget holders' handbook for this document not to be necessary. If there are any specific recommendations from internal audit reports these will be included within the next review of fin regs/budget holders' handbook.</i>	-	<i>Director of Finance, ICT and Governance - Julie Crook</i>
16.2	The Financial Regulations and Delegated Authorities be amended to make reference to: -The Director of Finance, ICT and Governance must ensure that detailed budgets are prepared to support the resource allocation process and that these are communicated to heads of department as soon as possible following their approval by the Board, during the year the Director of Finance, ICT and Governance is responsible for submitting revised budgets to the Board for approval.	2	<i>Consideration to be given to which Internal Audit recommendations should be addressed in the Financial Regulations and which in procedural documents.</i> <i>All proposed amendments to the Financial Regulations are maintained on a summary register within finance and the Company's Standing Orders will be revised in 2009.</i>	<i>Update of the Company's Financial Regulations – End of May 2009.</i> <i>Finalisation of financial procedures – December 2008.</i>	<i>Head of Finance (Company) – Darren Phillips</i>

PRIORITY GRADINGS

1	URGENT	fundamental control issue on which action should be taken immediately.
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2	IMPORTANT	control issue on which action should be taken at the earliest opportunity.
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3	ROUTINE	control issue on which action should be taken.
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Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
16.3	The budgetary control procedures for budget holders be documented and accord with the Financial Regulations and Delegated Authorities.	2	<i>A draft Budget Book has been produced and will be reviewed and updated in light of Internal Audit recommendations.</i>	<i>End of December 2008.</i>	<i>Head of Finance (Company) – Darren Phillips</i>
16.4	The budgetary control procedures be documented for finance staff.	2	<i>A draft Budget Book has been produced and will be reviewed and updated in light of Internal Audit recommendations.</i>	<i>End of December 2008.</i>	<i>Head of Finance (Company) – Darren Phillips</i>
16.6	The draft Annual Efficiency Savings report for the current year be approved.	2	COMPLETE. <i>This report is included within the value for money strategy which was approved by the Board in July 2008</i>	<i>Implemented</i>	<i>Director of Finance, ICT and Governance - Julie Crook</i>
16.5	The formulae within the Excel spreadsheet used for preparing the budget be independently checked to confirm the validity of the formulae used and protected.	3	COMPLETE. <i>The format and content of the Excel spreadsheet pro-forma used for preparing the 2009/10 budget has been reviewed and cells not requiring input from budget holders have been protected.</i>	<i>Implemented</i>	<i>N/A</i>

PRIORITY GRADINGS

1	URGENT	fundamental control issue on which action should be taken immediately.
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2	IMPORTANT	control issue on which action should be taken at the earliest opportunity.
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3	ROUTINE	control issue on which action should be taken.
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OPERATIONAL EFFECTIVENESS MATTERS

Para. Ref.	Item	Management Comments
	No Operational Effectiveness Matters were raised.	

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures, rather than on a one-by-one basis

SCOPE AND LIMITATIONS OF THE REVIEW

6. The objective of the review was to assess the effectiveness of the key risk controls which provide assurance that the Budgetary Control system is operated in accordance with requirements.
7. The review considers the budget preparation process, the monitoring arrangements, and reporting to committee. The scope of the review does not include consideration of the assumptions used in preparing the budgets; depreciation policies; apportionment of central costs; or financial information included in tenders prepared by the organisation.
8. The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.
9. For the purposes of this review reliance was placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.

ASSESSMENTS OF THE KEY RISK CONTROL OBJECTIVES

10. Details of the two Key Risk Control Objectives that were reviewed and the individual assessments of the effectiveness of the control arrangements are shown below (figure 2 below).

Figure 2 - Summary of the Evaluations of the Key Risk Control Objectives

Risk	Control	Assurance Assessment
Failure to direct the process through approved policy & procedures.	Arrangements in place provide for compliance with established policies, procedures, laws and regulations.	Limited Assurance
Losses arising from unauthorised action by staff.	Arrangements in place provide for safeguarding the organisation's assets and interests from avoidable losses.	Limited Assurance

11. This review identified and tested the controls that are being operated by the Organisation and an assessment of the combined effectiveness of the controls in meeting each of the Key Risk Control Objectives is provided. Internal controls can only provide reasonable and not absolute assurance against misstatement or loss. The limitations on assurance include the possibility of one or more of the following situations, control activities being circumvented by the collusion of two or more persons, human error, or the overriding of controls by management. Additionally, no assurance can be provided that the internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks that may arise in future. The assessments, which are based solely on the audit carried out are:

Substantial Assurance robust series of internal controls in place which should ensure continuous and effective achievement of the control objective.

Reasonable Assurance reasonable number of internal controls in place, however may not be operated all the time.

Limited Assurance the controls in place are not sufficient to ensure the continuous and effective achievement of the control objective.

No Assurance fundamental breakdown or absence of core internal controls.

MATERIALITY

12. The Director of Finance, ICT and Governance, the Interim Director of Finance and the Head of Finance - Company all commenced employment in the Company within the last 12 months. The Audit Commission report from March 2006 stated that " budgetary controls are weak with both large overspends and underspends" with particular concerns around repairs and maintenance, and capital expenditure.

RELEASE OF REPORT

13. The table below sets out the history of this report.

Date draft report issued:	26 th August 2008
Date management responses recd:	18 th September 2008
Date final report issued:	22 nd September 2008

- DETAILED REPORT -

14. Risk	Failure to direct the process through approved policy & procedures.		
Risk Control Objective	Arrangements in place provide for compliance with established policies, procedures, laws and regulations.	Evaluation	From the review of the documentation and tests carried out the Control Evaluation is: <u>Limited Assurance</u>

15. The following matters were identified in reviewing the Key Risk Control Objective:
- 15.1 There is no budgetary control strategy in place cross-referenced to the business plan and risk strategy. (Recommendation 16.1 refers).
 - 15.2 The Financial Regulations and Financial Authorisation Matrix dated May 2008 make reference to budgetary control but do not make reference to: - The Director of Finance, ICT and Governance must ensure that detailed budgets are prepared to support the resource allocation process and that these are communicated to heads of department as soon as possible following their approval by the Board, during the year the Director of Finance, ICT and Governance is responsible for submitting revised budgets to the Board for approval. (Recommendation 16.2 refers).
 - 15.3 There are no documented procedures in place to provide guidance to staff involved in the departmental budgetary control process. (Recommendation 16.3 refers).
 - 15.4 There are no documented budgetary control procedures in place for finance staff. (Recommendation 16.4 refers).
 - 15.5 The Director of Finance has overall responsibility for budgetary control and the Head of Finance would cover in her absence.
 - 15.6 Financial training "Money Matters" has been provided to staff including budget holders.
 - 15.7 The formulae used in the budget preparation and financial modelling spreadsheets are not protected to prevent unauthorized or inadvertent modification. (Recommendation 16.5 refers).
 - 15.8 An Annual Efficiency Savings report was not produced during the budget planning process for the 08/09 budget. A draft report has been produced for the current year. (Recommendation 16.6 refers).

16. Recommendations:	Priority
16.1 A budgetary control strategy, which is cross-referenced to the business plan and risk strategy be adopted.	2

16.2	The Financial Regulations and Delegated Authorities be amended to make reference to: -The Director of Finance, ICT and Governance must ensure that detailed budgets are prepared to support the resource allocation process and that these are communicated to heads of department as soon as possible following their approval by the Board, during the year the Director of Finance, ICT and Governance is responsible for submitting revised budgets to the Board for approval.	2
16.3	The budgetary control procedures for budget holders be documented and accord with the Financial Regulations and Delegated Authorities.	2
16.4	The budgetary control procedures be documented for finance staff.	2
16.5	The formulae within the Excel spreadsheet used for preparing the budget be independently checked to confirm the validity of the formulae used and protected.	3
16.6	The draft Annual Efficiency Savings report for the current year be approved.	2

17. Risk	Losses arising from unauthorised action by staff.		
Risk Control Objective	Arrangements in place provide for safeguarding the organisation's assets and interests from avoidable losses.	Evaluation	From the review of the documentation and tests carried out the Control Evaluation is: <u>Limited Assurance</u>

18. The following matters were identified in reviewing the Key Risk Control Objective :

Risk: The budget does not represent the agreed actions of the organisation as set out in the Business Plan.

18.1 The budget was presented to the Policy and Resources Committee meeting on 30th Oct 2007 for approval.

Risk: Comparison of actual performance to budget is not reported in a regular and timely manner which may result in policy decisions being taken on incorrect/incomplete financial information.

18.2 Virement authorisation forms V001, V010 and V026 have not been signed off as per the Financial Authorisation Matrix as listed in the Financial Regulations. (Recommendation 19.1 refers).

18.3 A quarterly reconciliation between responsive maintenance information and that held in the nominal ledger is undertaken on a quarterly basis. It was understood that the reconciliation for quarter 1 has been completed but was delayed due to the DLO contract start date.



19. Recommendation:	Priority
19.1 Virements made between cost codes are authorised in line with the Financial Regulations.	1
