



NOTTINGHAM CITY HOMES

RISK MANAGEMENT REVIEW
RISK MITIGATING CONTROLS ARRANGEMENTS

Report issued:	February 2009
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Audit Plan:	2008/09
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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

Risk Management Review Risk Mitigating Controls Arrangements

- EXECUTIVE SUMMARY -

INTRODUCTION

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

SUMMARY

2. One Key Risk Mitigation Objective was tested and based on the findings from this work an overall evaluation of the overall adequacy of the business significant risk mitigating arrangements was established (figure 1 below).

Figure 1 - Evaluation of the Effectiveness of the Internal Controls

System	Evaluation
Risk Mitigating Controls	Reasonable Assurance

KEY FINDINGS

3. The following significant matters were identified which need to be addressed in order to strengthen further the arrangements.
 - Responsibility for the overall monitoring of the action plan within the Risk Management Framework has not been defined and documented.
 - Risk training has not been given to all staff.

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 Company 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
16.1	The risk registers be amended to include the monitoring processes in place for each risk.	2	<i>Not Agreed.</i> <i>The registers themselves and the quarterly review by RROs is the process by which risks are monitored. The controls/mitigations section of the register should include specific monitoring actions designed to provide assurance to RROs.</i>	N/A	N/A
16.2	Responsibility for the overall monitoring of the action plan within the Risk Management Framework be defined and documented.	2	<i>The Company's Risk Management Framework (RMF) is annually reviewed.</i> <i>Comments and recommendations made in this report will be incorporated into the 2009 review and amendments made to the RMF as deemed necessary.</i>	End of May 2009	<i>Darren Phillips</i> <i>Head of Finance (Company)</i>
16.4	Risk training be given to all staff in order to embed a risk-focussed culture across the organisation.	2	<i>Risk Management training from an external specialist provider has been scheduled for all Company Managers and Board members.</i>	End of April 2009	<i>Julie Crook</i> <i>Director of Finance, ICT and Governance</i>
16.3	Risk be included as a standing agenda item on all team meetings.	3	<i>Partially Agreed.</i> <i>It is not proposed to introduce risk as a standing agenda item for service area team meetings.</i> <i>However, consideration is to be given to introducing risk as a standing agenda item on Directorate Team Meetings – where this is not already the case.</i>	End of May 2009	<i>Julie Crook</i> <i>Director of Finance, ICT and Governance</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	ADVISABLE	Control issue on which action should be taken.
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Risk Management Review - Risk Mitigating Controls Arrangements

Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
16.5	The risk register review process to include testing of a selection of controls to ensure they are in place and working effectively.	3	COMPLETE. Guidance issued to Risk Register Owners and RR Responsible Officers has been updated to include the requirement for a selection of controls established to mitigate the risks in risk registers to be tested to ensure they are in place and working effectively.	Immediate	Darren Phillips Head of Finance (Company)
16.6	Internal Audit reports be reviewed against the risk map to identify any controls which have been identified as not in place or not working.	3	COMPLETE. Guidance issued to Risk Register Owners and RR Responsible Officers has been updated to include the requirement for risk registers to be reviewed for consistency against relevant Internal Audit reports. Anomalies identified during the compilation of the Audit Register (reported to the P&R Committee) will be raised with RROs.	Immediate	Darren Phillips Head of Finance (Company)
16.7	All Board and Committee reports to contain a section on the risk implications of the information contained in the report.	3	COMPLETE. A template for Board and Committee reports, which includes a section on risk, is available on Intranet. Company Managers have been reminded of the need to use the template and hence include a section on risk in all their Board and Committee reports.	Immediate	Alison Mapp Company Secretary

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SCOPE AND LIMITATIONS OF THE REVIEW

- 6. The review considered the arrangements which identify controls to mitigate the likelihood of the business significant risk materialising and the arrangements for monitoring the effectiveness of these arrangements for two of the organisation's Risk.
- 7. The scope of the review did not include consideration of all potential mitigating arrangements or their effectiveness in minimising the opportunities for the identified risks to occur.
- 8. 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.
- 9. The responsibility for a sound system of internal control 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 Mitigation may not be proof against collusive fraud.

KEY RISK CONTROL OBJECTIVE

- 10. Details of the Key Risk Control Objective that was reviewed and the individual assessment of the effectiveness of the arrangements are shown below (figure 2 below).

Figure 2 - Summary of the Key Risk Control Objective

Risk	Mitigation	Assurance Assessment
Failure to direct the process through appropriate risk management policy & procedures.	Arrangements in place provide for effective risk management.	Reasonable Assurance

- 11. This review identified and tested the controls that are being operated by Nottingham City Homes and an assessment of the effectiveness of the arrangements in meeting the Key Risk Mitigation Objective is provided. The assessments, which are based solely on the review work carried out, are:

Substantial Assurance	The arrangements are designed to meet the organisation's objectives and they accord with expected practice.
Reasonable Assurance	There are generally sound arrangements designed to meet the organisation's objectives. However, some expected practices were not present which may result in the continuous and effective achievement of the organisation's objective not being achieved all the time.
Limited Assurance	There is considerable risk that the arrangements will fail to meet the organisation's objectives as the practices in place are not sufficient to ensure the continuous and effective achievement of the organisation's objective.
No Assurance	The arrangements are insufficient to ensure that activities and procedures are operating to achieve the organisation's objective.



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

Date draft report issued:	25 th September 2008
Date management responses recd:	17 th February 2009
Date final report issued:	18 th February 2009
Date revised final report issued:	25 th February 2009

- DETAILED REPORT -

BACKGROUND

13. A key element of effective risk management is the robustness of the risk mitigation arrangements. This review has selected three risks from the Corporate Risk Register and for each of these a desk-top review has been carried out to assess the extent to which the risk mitigation arrangements set out in the business significant risk map address the following:
- the appropriate risk mitigation factors for the organisation have been identified.
 - the stated risk mitigation factors are in place and/or there are action plans in place to address known deficiencies.
 - risk process testing has established that failures in the risk mitigation factors will be identified in a timely manner.

14. Risk	Failure to direct the process through appropriate risk management policy & procedures.		
Risk Control Objective	Arrangements in place provide for effective risk management.	Evaluation	From the review of the documentation and tests carried out the Control Evaluation is: <u>Reasonable Assurance</u>

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

Risk Mitigation Arrangements

- 15.1 A Risk Management Framework is in place and was approved by the Board in May 2008. Risk activity highlighted in this framework is therefore in the process of being implemented.
- 15.2 There are a number of risk registers in place, a high level Corporate Risk Register, with individual Directorate and Service area risk registers sat beneath it. Each of the risk registers is designated to a specific owner.
- 15.3 The registers are in a consistent format and the Corporate Risk Register has been recently updated and is due for presentation to the Audit Committee on September 29th 2008. The Corporate Risk Register will be reviewed quarterly by the Audit Committee and annually by the Board.
- 15.4 The risk registers include a description of the risk, potential impact, likelihood, scoring, controls and mitigating factors, target date of any actions and the residual risk. The registers do not however contain a specific indication of the how each risk is to be monitored. (Recommendation 16.1 refers).
- 15.5 The Risk Management Framework includes an action plan of additional risk activities which are due to be introduced. These include update of managerial job descriptions to reflect responsibilities relating to risk and the setting of related personal objectives.

Whilst each item on the plan has an owner, there is no indication of who is responsible for the overall monitoring of the plan. (Recommendation 16.2 refers). The Risk Management Framework also includes an annual cycle of risk management activities which should be followed by all relevant staff.

- 15.6 Team meeting agendas do not include risk as a standing item to ensure that all staff have the opportunity to raise any issues in relation to risk. (Recommendation 16.3 refers).
- 15.7 Training has been identified as a need for managers not involved in the Risk Register process in the Action Plan however training for all staff is required in order to fully embed a risk culture into the organisation. (Recommendation 16.4 refers).
- 15.8 There is no process to undertake regular testing of those items listed as mitigating controls to ensure that they are working effectively. (Recommendation 16.5 refers). In addition, Internal Audit reports are not checked against the risk map to identify any controls which have been identified as not in place or not working. (Recommendation 16.6 refers).
- 15.9 Risks on the Corporate Risk Register are aligned to the Corporate objectives.
- 15.10 All risk registers incorporate a sign off by the risk register owner that the contents of the register has been reviewed.
- 15.11 Reports prepared for Board and Committee document the impact on the Company objectives but do not contain a standard section documenting the risk implications of the information contained within the report. (Recommendation 16.7 refers).

Selected Risk 1 – Financial Management

- 15.12 The Company has the following financial risk documented “failure to achieve efficiency and staff vacancy savings or control costs in order to address housing subsidy and/or funding reductions and achieve a financial breakeven position”.

The potential impacts are identified as:

- The Company will not be able to fund the level of committed expenditure.
- The Company may be required to cut services and/or achieve a higher level of budget savings in future years.
- Annual profits cannot be used by the Company to re-invest in resources or service delivery and must be repaid to the City Council.

In order to mitigate this risk the Company has identified the following activities which will be completed by 31st March 2009.

- Preparation and adoption of the Medium Term Financial Plan taking account of the need to achieve efficiency savings in line with the principles set out in the Comprehensive Spending Establishment of clear accountability for all budgets and savings designated to budget managers.

- Monthly and quarterly monitoring of progress against the budget by the Executive Management Team (EMT) and the Performance and Regulatory Committee respectively.
- Reduction of £0.9 million in the Company Management Fee to drive the achievement of VFM through the identification of efficiency savings.

Selected Risk 2 – Decent Homes

15.13 The Company has identified two risks relating to the achievement of Decent Homes Standard, which are

- Failure to produce and implement a credible long-term plan, agreed in consultation with tenants, to deliver the Decent Homes programme.
- Inability to mobilise and maintain the Property Services technical repairs team in line with the parameters and requirements of the tender bid.

The potential risks of the former are identified as:

- Failure to deliver the Decent Homes programme by 2012 and meet customer expectations.
- Failure to achieve 2 stars in the November 2008 Audit Commission Inspection.
- Inability to access borrowing markets and fund additional programme works.

In order to mitigate the risks associated with Decent Homes Standard, a number of activities have been identified with a target date of 31st March 2009. These include:

- Production of the Company's City Council endorsed Asset Management Strategy and 5 year Decent Homes investment plan.
- Successful Property Services repairs and maintenance contract tender bid.
- Review of Company procurement arrangements for Decent Homes works.
- Development of the workforce and systems, including multi-skilling, the introduction of hand held technology and improving stock condition information.
- Review of the responsive repairs' policy and service standards.

Selected Risk 3 – Health and Safety

15.14 The Company has identified "failure to meet current Health and Safety requirements" on its Corporate Risk Map.

The potential impacts of this risk include:

- Employees and/or customers put at risk.
- Serious injury or loss of life of employee(s) and/or customers.
Company and/or individual fines - notably Corporate Manslaughter.
- Damage to Company reputation.
- Litigation from employee(s) and/or third parties.

In order to mitigate the risks associated with the above, the Health and Safety policy, safe systems of working and Health and Safety Committee remit have been reviewed. Health and Safety training for Managers has also been undertaken.

16.	Recommendations:	Priority
16.1	The risk registers be amended to include the monitoring processes in place for each risk.	2
16.2	Responsibility for the overall monitoring of the action plan within the Risk Management Framework be defined and documented.	2
16.3	Risk be included as a standing agenda item on all team meetings.	2
16.4	Risk training be given to all staff in order to embed a risk-focussed culture across the organisation.	3
16.5	The risk register review process to include testing of a selection of controls to ensure they are in place and working effectively.	2
16.6	Internal Audit reports be reviewed against the risk map to identify any controls which have been identified as not in place or not working.	3
16.7	All Board and Committee reports to contain a section on the risk implications of the information contained in the report.	3
