



NOTTINGHAM CITY HOMES

**GOVERNANCE REVIEW  
HALF YEAR INTERNAL CONTROLS ASSURANCE  
UPDATE REPORT**

**Report issued: February 2009**

**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



# Half Year Internal Controls Assurance Update Report

## - EXECUTIVE SUMMARY -

### INTRODUCTION

1. The review considered whether Nottingham City Homes could demonstrate that action has, or will be taken in a timely manner, to address changes, which may have an impact on the Internal Controls Framework for 2008/09. The review was carried out in August 2008 as part of the planned audit work for 2008/09.

### KEY FINDINGS

2. The following matters were identified on which action should be considered in order to strengthen the Company's overall system of internal control:
  - The emerging risks identified in this report be considered at the next review of the risk register.
  - Housing Corporation publications and the Audit Commission positive practice notes are not reviewed on a regular basis to identify any best practice which can be incorporated into Company procedures.

### MANAGEMENT RESPONSES

3. 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
10.1	The risks highlighted in this report be considered at the review of the Company risk register.	3	<i>The Corporate Risk Register is reviewed quarterly by the Audit Committee. In advance of the March Audit Committee meeting the Corporate Risk Officer will consider the aforementioned risks and update the register as required.</i>	<i>March 2009</i>	<i>Alison Mapp  Company Secretary</i>
14.1	Housing Corporation publications and the Audit Commission positive practice notes be reviewed on a regular basis to identify any best practice which can be incorporated into Company procedures.	3	<i>The Business Improvement Team are responsible for updating all company employees on Good practice which is done through a monthly Bulletin.  This document includes an update on all good practice through a variety of sources which include, DCLG, CIH, Housemark and the Housing Quality Network.</i>	<i>Immediate</i>	<i>Constance Hall  Interim Head of BID</i>

PRIORITY GRADINGS

1	URGENT	fundamental control issue on which action should be taken immediately.
---	--------	--

2	IMPORTANT	control issue on which action should be taken at the earliest opportunity.
---	-----------	--

3	ROUTINE	control issue on which action should be taken.
---	---------	--



## SCOPE

4. The review considers matters that have arisen since last year's internal audit plan was prepared. These matters will be identified from: internal audit reviews; external reviews of the governance and control arrangements; Housing Corporation Regulatory Circulars; and good practice guidance issued by the Housing Corporation.
5. TIAA relied solely upon management's representations and no audit testing has been performed. The matters identified are not exhaustive and this review does not absolve the Company of its responsibility to inform TIAA of any matters which have, or are likely to have, an impact of the internal control framework of the organisation at the earliest opportunity throughout the year.
6. 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. Proposed changes to the internal audit Annual Plan should be assessed by the Company for their full impact before they are approved.

## RELEASE OF REPORT

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

Date draft report issued:	17 <sup>th</sup> September 2008
Date revised draft report issued:	18 <sup>th</sup> September 2008
Date management responses recd:	17 <sup>th</sup> February 2009
Date final report issued:	18 <sup>th</sup> February 2009
Date revised final report issued:	24 <sup>th</sup> February 2009

**- DETAILED REPORT -**

8. The matters identified in the review arise from three different forms of controls assurance monitoring. It is important to identify which form gives rise to specific a matter as this could directly impact on any the internal control environment. The matters raised are not exhaustive and it is the Company's responsibility to ensure that it has an effective internal control framework in place.

**A) INTERNAL SELF-MONITORING**

9. The following matters, which should not be considered to be exhaustive, were identified.

**Potential emerging risks that could directly impact on the governance and internal control arrangements at Nottingham City Homes**

9.1 **Emerging risk** – The following developing risks have been identified by TIAA as having the potential to impact directly on the internal control framework. Consideration has been given to whether these emerging risks have been incorporated into the Company's risk map and whether appropriate actions plan have been put in place.

Risk	Observation	Management Response
Failure to issue Energy Performance Certificates (EPC).	<p><b>Background:</b> As of 1st October 2008, landlords will need to provide energy efficiency ratings for their properties when they let a property. The EPC must be provided every time a property is marketed to potential new tenants.</p> <p><b>Risk:</b> Either the arrangements have not been put in place to provide EPCs and/or the budgetary implications have not been provided for with each certificate likely to cost around £100 at first estimate.</p>	Not specifically included in the risk map.
Failure to vet employees who work with vulnerable adults.	<p><b>Background:</b> From 12 October 2009 a centralised vetting system for people banned from working with children and vulnerable adults will be introduced under the Safeguarding Vulnerable Groups Act 2006. The arrangements will be administered by a new body, the Independent Safeguarding Authority.</p> <p><b>Risk:</b> There will be fines of up to £5,000 for employers that knowingly employ individuals on the list or fail to make the relevant checks. More importantly there could be significant adverse publicity arising from failing to comply.</p>	Included in risk map and CRB checking process in place.
Failure to react in a timely manner to impacts of the credit crisis and down-turn on the economic cycle.	<p><b>Background:</b> The down-turn in the UK economy has the potential to have an immediate direct impact on delivery of the business plan through increases in interest rates on variable rate loans and any new loans taken out. The down-turn</p>	Not specifically included in the risk map.

	<p>can also impact less directly through the changes that feed through from contractors and tenants who have to adjust their lie-style in response to the down-turn.</p> <p><b>Risk:</b> The organisation's mitigation arrangements are not sufficiently robust or comprehensive to react in a timely manner to changes arising from the impact of the credit crisis and down-turn in the economic cycle.</p>	
--	---	--

**Changes identified in the Company's business significant risk map**

9.2 **Emerging risks** – The key risks facing the Company at the moment are the failure to attain two stars in the Audit Commission Inspection and the performance of the responsive maintenance contract.

**Fraud Register**

9.3 There have been no entries made in the Fraud Register since the annual internal audit plan has been reviewed.

**Meetings of the Audit Committee**

9.4 As part of the internal controls assurance arrangements it is important that the planned meetings of the committee charged with carrying out the duties of an Audit Committee are held and that these meetings are quorate. There have been three meetings of the Audit Committee since the start of the financial year. The following matters were identified from a review of the minutes:

Planned date	Meeting held on planned date	Quorate
June 2008	Yes	Yes
July 2008	Yes	Yes

**Review of external changes that could impact on strategic delivery of the business plan**

9.5 There are no external factors that could impact on the Company other than the emerging risks detailed in paragraph 9.1 above.

10.	<b>Recommendation:</b>	<b>Priority</b>
10.1	<b>The risks highlighted in this report be considered at the review of the Company risk maps.</b>	<b>3</b>

**B) EXTERNAL MONITORING SPECIFIC TO THE COMPANY**

11. The following matters, which should not be considered to be exhaustive, were identified.



**Internal audit findings for first half year**

11.1 TIAA has completed five reviews. Within the two system reviews there was one where the overall control objective was assessed as providing limited or no assurance.

System	Limited Assurance	No Assurance
Budgetary Control	✓	

11.2 For the system detailed above, there is currently no further internal audit work planned to be carried out in 2008/09.

11.3 TIAA has not experienced any difficulties in carrying out the internal audit programme.

**Follow up on external audit recommendations**

11.4 The external auditor raised eleven recommendations in their audit highlights memorandum for 2007/08. These relate to bank accounts, risk management and IT.

Outstanding recommendations have been added to the recommendations monitor and are reported to the Audit Committee along with outstanding Internal Audit recommendations.

**Audit Commission Inspection Report**

11.5 The Audit Commission are due to carry out an inspection in November 2008. The self-assessment is due to be completed by mid-September 2008.

<b>12.</b>	<b>Recommendation:</b>  There are no recommendations.	<b>Priority</b>
------------	---	-----------------

**C) EXTERNAL MONITORING RELATING TO ALMOS**

13. The following matters, which should not be considered to be exhaustive, were identified.



**Housing Corporation – Regulatory Circulars and Guidance**

13.1 As an Arms Length Management Organisation, Nottingham City Homes is not subject to Housing Corporation regulation, however, many Housing Corporation publications and the Audit Commission positive practice notes however contain best practice for the sector and it would therefore be prudent for Company to review them on a regular basis to identify any practice which can be incorporated into Company procedures.

**National Fraud Initiative (NFI)**

13.2 It is noted that the Company will not be participating on a voluntary basis in the Audit Commission’s 2008/09 National Fraud Initiative (NFI) data matching exercise.

14.	Recommendation:	Priority
14.1	<b>Housing Corporation publications and the Audit Commission positive practice notes be reviewed on a regular basis to identify any best practice which can be incorporated into Company procedures.</b>	3

**INTERNAL AUDIT ANNUAL PLAN 2008/09**

15. The annual plan for 2008/09 has been reviewed and changes have been agreed with management, which will be presented to Audit Committee in a revised plan.

-----