



NOTTINGHAM CITY HOMES

## RISK MANAGEMENT REVIEW OF THE INTEGRATION ARRANGEMENTS

<b>Report issued:</b>	October 2009
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<b>Audit Plan:</b>	2009/10
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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 of the Integration Arrangements

## - EXECUTIVE SUMMARY -

### INTRODUCTION

1. We have reviewed the Integration arrangements at Nottingham City Homes. The review was carried out in September 2009 as part of the planned internal audit work for 2009/10.

### SUMMARY

2. One Key Risk Control Objective was Identified and based on the findings from this work an overall evaluation of the overall adequacy of the internal controls was established (figure 1).

*Figure 1 - Evaluation of the Effectiveness of the Internal Controls*

<b>Evaluation</b>
Reasonable Assurance

### KEY FINDINGS

3. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. The prioritisation of the recommendations are summarised below (figure 2).

*Figure 2 - Summary of Priorities of Recommendations*

Urgent	Important	Routine	Operational
0	1	4	0

### MANAGEMENT RESPONSES

4. Recommendations for improvements should be assessed by the Company for their full impact before they are implemented.

### RELEASE OF REPORT

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

Date draft report issued:	23 <sup>rd</sup> September 2009
Date revised draft report issued:	28 <sup>th</sup> September 2009
Date management responses recd:	28 <sup>th</sup> October 2009
Date final report issued:	28 <sup>th</sup> October 2009



**MANAGEMENT ACTION PLAN**  
**PRIORITY 1, 2 AND 3 RECOMMENDATIONS**

Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to direct the process through approved policy & procedures.	The responsibilities of the Risk Management Panel include the review of the Corporate Risk Register in advance of being presented to the Audit Committee and the Board, the review of Directorate Risk Registers on a bi-monthly basis and monitoring the RMF action plan. A report produced by the Head of Finance (Company) showing the completion of service area risk registers completed up to quarter one shows that half of the registers had not been confirmed as updated as required for the previous three quarters.	Recommendation 3: The Risk Management Panel to ensure that all service area risk registers are reviewed quarterly as required within the Risk Management Framework.	2	<i>An update report will be produced summarising the completion of Service Area and Directorate Risk Registers by Managers, for review by the RMP on a quarterly basis.</i>	<i>End of December 2009</i>	<i>Julie Crook – Director of Finance, ICT &amp; 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	ROUTINE	Control issue on which action should be taken.
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Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to direct the process through approved policy & procedures.	The mitigating controls as listed in the Rents Risk Register relating to the risk of Inability to Meet Rent Collection Targets include management controls and weekly and monthly monitoring. The Rent Collection audit completed in May 2009 raised the issue that the cash system and the nominal ledger were not being regularly reconciled to each other. At the time of the audit this had not been completed for seven months. This would indicate that this control was not in place at that time. This reconciliation has since been brought up to date.	<p>Recommendation 1: The mitigating controls on the Rents Risk Register relating to the Inability to Meet Rent Collection Targets be updated with reference to the recommendations of the internal audit.</p>	3	<p><b>COMPLETE.</b> <i>The reconciliation between the cash system and nominal ledger is now up to date. The line manager within the section and operative are fully aware that this process must be kept up to date, and that any slippage must be reported to the Head of Rents.</i></p> <p><i>The Rents Risk Register has been updated accordingly.</i></p>	Immediate.	Richard Holland – Interim Rents Manager

PRIORITY GRADINGS

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Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to direct the process through approved policy & procedures.	Neither the broker nor Nottingham City Council provide an annual risk appraisal report.	Recommendation 2: Consideration be given to requesting the insurance broker or Nottingham City Council to provide an annual risk appraisal report as part of the renewal of the insurance policies.	3	<i>Discussions to be held with the City Council's Insurance and risk Management Officer to ascertain if there is an existing insurance risk appraisal which can be provided to NCH as part of the renewal of insurance policies.</i>	<i>End of December 2009</i>	<i>Darren Phillips – Head of Finance (Company)</i>

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Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to direct the process through approved policy & procedures.	The covering report presented with the risk register to the Audit Committee and Board does not provide reasonable monitoring of agreed actions relating to risk and the risk register.	<p>Recommendation 4: The covering report presented with the risk register to the Audit Committee and Board to provide reasonable monitoring of agreed actions relating to risk and the risk register, for example</p> <ul style="list-style-type: none"> <li>• a list of registers that have not been reviewed in line with the framework</li> <li>• new risks identified and added to the risk registers</li> <li>• risks removed from the registers</li> <li>• changes in mitigating controls and</li> <li>• changes to risk likelihood and impact scores.</li> </ul>	3	<i>Consideration will be given to updating the report and expanding the information provided to members on risk during the compilation of the papers for the February Finance and Audit Committee.</i>	<i>End of January 2009</i>	<i>Alison Mapp – Company Secretary</i>

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Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to direct the process through approved policy & procedures.	An annual risk report has not been prepared summarising the actions taken against the Risk Action Plan.	<p>Recommendation 5: An annual risk report be prepared summarising the actions taken against the Risk Action Plan and to include: -</p> <ul style="list-style-type: none"> <li>• Overall progress against the Plan</li> <li>• Summary of any issues identified during the period and remedial action undertaken</li> <li>• Details of any new activities/significant risks identified since last review</li> <li>• Details of progress on significant action points within the plan, any slippage against deadlines or resource implications</li> <li>• Key performance Indicators with comparisons and commentary.</li> <li>• Insurance highlighting significant risks identified by the broker or Nottingham City Council.</li> </ul>	3	<p>An annual report on risk is to be provided to the Audit and Finance Committee and Board to accompany the Corporate Risk Register and Delivery Plan.</p> <p>2009/10 report will be drafted taking account of the areas highlighted within the recommendation.</p>	End of March 2010	Julie Crook – Director of Finance, ICT & Governance

PRIORITY GRADINGS

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**OPERATIONAL EFFECTIVENESS MATTERS**

Item	Management Comments
No Operational Effectiveness Matters were raised.	-

ADVISORY NOTE

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

### SCOPE AND LIMITATIONS OF THE REVIEW

6. The review considers the arrangements to integrate risk management into business planning and the internal controls assurance framework. The scope of the review does not include providing assurance that all the business significant risks have been correct
7. The limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

### ASSESSMENTS OF THE KEY RISK CONTROL OBJECTIVES

8. This review identified and tested the controls that are being operated by the Company and an assessment of the combined effectiveness of the controls in mitigating the key probity risks is provided. The assessments are:

<b>Substantial Assurance</b>	robust series of internal controls in place which should ensure continuous and effective achievement of the control objective.
<b>Reasonable Assurance</b>	reasonable number of internal controls in place, however may not be operated all the time.
<b>Limited Assurance</b>	the controls in place are not sufficient to ensure the continuous and effective achievement of the control objective.
<b>No Assurance</b>	fundamental breakdown or absence of core internal controls.

### MATERIALITY

9. The Audit Committee reviews the Corporate Risk Register quarterly along with an Internal Controls Issues Audit Register.

10 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	<u>Reasonable Assurance</u>

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

**Risk: The risks identified by external monitoring organisations are not actioned**

- 11.1 The last Audit Commission inspection was carried out in November 2008. The Company received a two star rating with excellent prospects for improvement. The Company are not currently under supervision by the Regulator.
- 11.2 An Audit Commission inspection report published in March 2006 highlighted weaknesses in the allocations processes. Following this the Audit Commission completed an investigation into inappropriate allocations between 2003 and 2005 and offers of temporary employment outside of the established process. These risks have been identified in the Voids and Allocations Risk Register as the risk of " Failure of the Allocations and Lettings service to stand up to scrutiny" and in Human Resources Risk Register as the risk of "Discriminatory recruitment".

**Risk: Financial statement risks identified by external auditor are not addressed which may have a significant impact on the Company**

- 11.3 No financial statement risks have been identified by external auditors which may have a significant impact on the Company. The auditors did identify 'Creditors' as a critical area in their Plan/Strategy in terms of their audit, but following their fieldwork the Key Issues Memorandum concluded that there were no issues arising from the audit and that audit procedures on creditors were completed satisfactorily.
- 11.4 The Company's Risk Management Framework states that the risk registers will be reviewed when an audit review has been undertaken. These reviews may include new risks identified, changes to controls, additional controls or changes to risk ratings and scores.

**Risk: Failure to identify mitigating internal controls (including risks identified by Internal Audit) leading to a lack of control**

- 11.5 An Internal Controls Issues Audit Register is presented to each meeting of the Audit Committee along with a Summary showing the number of recommendations complete and outstanding.
- 11.6 The mitigating controls as listed in the Rents Risk Register relating to the risk of Inability to Meet Rent Collection Targets include management controls and weekly and monthly monitoring. The Rent Collection audit completed in May 2009 raised the issue that the cash system and the nominal ledger were not being regularly reconciled to each other. At the time of the audit this had not been completed for seven months. This reconciliation has since been brought up to date.

*Recommendation 1: The mitigating controls on the Rents Risk Register relating to the Inability to Meet Rent Collection Targets be updated with reference to the recommendations of the internal audit.*

**Risk: Failure to identify and reduce insurable risks leading to increased insurance premiums and increased risk exposure**

- 11.7 Nottingham City Council procures insurance cover on behalf of Nottingham City Homes and recharge an element of the total premium.

- 11.8 Neither the broker nor Nottingham City Council provide an annual risk appraisal report.

*Recommendation 2: Consideration be given to requesting the insurance broker or Nottingham City Council to provide an annual risk appraisal report as part of the renewal of the insurance policies.*

**Risk: The lack of a risk action plan leading to a lack of direction or corrective action**

- 11.9 The Risk Management Framework, which was approved in May 2008 and revised in May 2009, sets out the responsibilities of the Risk Management Panel, the Board, the Audit Committee, Executive Directors, Risk Register Owners and staff in relation to risk management.

- 11.10 The responsibilities of the Risk Management Panel, which consists of the Executive Management Team and the Corporate Risk Officer (Company Secretary), include the review of the Corporate Risk Register in advance of being presented to the Audit Committee and the Board, the review of Directorate Risk Registers on a bi-monthly basis and monitoring the RMF action plan. A report produced by the Head of Finance (Company) showing the completion of service area risk registers completed up to quarter one shows that half of the registers had not been confirmed as updated as required for the previous three quarters.

*Recommendation 3: The Risk Management Panel to ensure that all service area risk registers are reviewed quarterly as required within the Risk Management Framework.*

**Risk: Ineffective monitoring leading to increased risks and a lack of internal control**

- 11.11 The Risk Management Framework is to be reviewed and updated annually.
- 11.12 The covering report presented with the risk register to the Audit Committee and Board does not provide reasonable monitoring of agreed actions relating to risk and the risk register.

*Recommendation 4: The covering report presented with the risk register to the Audit Committee and Board to provide reasonable monitoring of agreed actions relating to risk and the risk register, for example*

- a list of registers that have not been reviewed in line with the framework,
- new risks identified and added to the risk registers,
- risks removed from the registers,
- changes in mitigating controls and
- changes to risk likelihood and impact scores.

- 11.13 The Corporate Risk Officer, in liaison with the Director of Finance IT and Governance, report quarterly to the Risk Management Panel and annually to the Board. A nominated Risk Register Responsible Officer within each directorate is assigned responsibility for maintaining the register. They are required to sign these off on a six monthly basis to confirm that they have been updated.

**Risk: The lack of an Annual Risk report could lead to a lack of direction from the Board**

- 11.14 There is currently no formal requirement for Nottingham City Homes to produce an ICA/SIC statement. As part of the revision of the Risk Management Framework an Annual Controls Assurance Statement will be adopted from 2010 as stated in the Risk Management Action Plan.

- 11.15 An annual risk report has not been prepared summarising the actions taken against the Risk Action Plan and an annual report is not presented to the Board on insurance.

*Recommendation 5: An annual risk report be prepared summarising the actions taken against the Risk Action Plan and to include: -*



- *Overall progress against the Plan.*
- *Summary of any issues identified during the period and remedial action undertaken.*
- *Details of any new activities/significant risks identified since last review.*
- *Details of progress on significant action points within the plan, any slippage against deadlines or resource implications.*
- *Key performance Indicators with comparisons and commentary.*
- *Insurance highlighting significant risks identified by the broker or Nottingham City Council.*

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