



NOTTINGHAM CITY HOMES

## HALF-YEAR INTERNAL CONTROLS ASSURANCE UPDATE REPORT

<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

# Half-Year Internal Controls Assurance Update Report

## - EXECUTIVE SUMMARY -

### INTRODUCTION

1. This review considered whether Nottingham City Homes could demonstrate that action had, or would be taken in a timely manner, to address changes, which may have an impact on the Internal Controls Assurance for 2009/10. The review was carried out in September 2009 as part of the planned audit work for 2009/10.

### SUMMARY

2. Subject to consideration of the matters identified in this report, the Company is currently in a position to make the Internal Controls Assurance Framework for 2009/10. The Organisation is responsible for ensuring that control and risk issues emerging subsequent to this review are appropriately reflected in the annual Internal Controls Assurance Statement.

### KEY FINDINGS

3. There are no key control and operational practice findings identified during the review that need to be addressed in order to strengthen the control environment.

### 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:	30 <sup>th</sup> September 2009
Date revised draft report issued:	29 <sup>th</sup> October 2009
Date management responses recd:	29 <sup>th</sup> October 2009
Date final report issued:	30 <sup>th</sup> October 2009

**- DETAILED REPORT -**

**SCOPE AND LIMITATIONS OF THE REVIEW**

6. This review considered matters that have arisen since the Internal Control Assurance Framework for the financial year to 2009/10.
7. 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.

**BACKGROUND**

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 matters that could directly impact on the Internal Controls Assurance Framework. 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 risks** – Since March 2009, the following developing risks have been identified by TIAA as having the potential to impact directly on the financial well-being of the Company and consequently also on the internal control framework. Consideration has been given to whether these emerging risks have been incorporated into the Company's Corporate Risk Register and whether appropriate actions plan have been put in place. To aid management in establishing the extent to which the arrangements being taken by the Company compare with those at other ALMOs we have provided a comparator assessment based on our findings at a number of other ALMOs where we have carried out the same review (Appendix A). The assessments are:

- A** above average
- B** average
- C** below average, but extenuating circumstances for the situation
- D** below average

Risk	Observation	Comparator rating
Lack of preparedness for changes to the Supporting People funding regime.	<p><b>Background:</b> From 2010/11 Supporting People grant will be paid as part of the local authority Area Based Grant. This removal of the ring fence provides local authorities with the opportunity to come up with flexible and innovative ways to support vulnerable people in a range of different situations.</p> <p><b>Risk:</b> Opportunities to reduce costs to offset the impact of any reduction in Supporting People funding in 2010 are not identified and enacted in a timely manner.</p>	A

<p>Failure to address the organisation's liabilities under the SHPS (and other) pension scheme.</p>	<p><b>Background:</b> The Pensions Trust has announced the need for a significant increase in the pensions contributions with effect from April 2010.</p> <p><b>Risk:</b> The organisation fails to assess and then provide for the additional financial burden in the 2010/11 budget.</p>	<p>B</p>
<p>Failure to prepare for a nil rent increase in 2010.</p>	<p><b>Background:</b> With the Government now consulting on setting a 'floor' of minus two per cent in the rents formula, the TSA expects Organisations to be assessing the impact of falling inflation and developing robust plans to maintain a sound financial position without compromising on service quality.</p> <p><b>Risk:</b> Opportunities to reduce costs to offset the impact of a likely moratorium on rent increases in 2010 are not identified and enacted in a timely manner.</p>	<p>A</p>
<p>Failure to prepare for or influence the process relating to the change in the Housing Revenue Account.</p>	<p><b>Background:</b> The Government announced prior to the Summer recess that they would be looking to discuss with Councils changes to the Housing Revenue Account process. In essence they have proposed to allow Councils to keep rental income and allow borrowing in exchange for taking on some of the £17billion debt.</p> <p><b>Risk:</b> The Company does not take the opportunity to influence the process of change.</p>	<p>A</p>

### Emerging Risks identified by the Company

9.2 **Emerging risk** – Since April 2009, the Organisation has identified two emerging risks in relation to corporate risk, which could impact on the internal control assurance. These emerging risks are listed below with details of whether any of the planned internal audit work will cover these matters:

- Fire Regulations – an enforcement notice has been issued by the fire authority at High Cross. The Company was aware of the issues prior to notice being issued and had a programme of work underway to resolve the issues. No internal audit work planned.
- Void works – internal audit work planned for 2010.

As of yet these risks have not formally been entered into the Corporate Risk Register as they are currently being reviewed by the Executive Directors following Risk Management Panel discussions.

### Fraud Register

9.3 There has been one entry made in the Fraud Register since the annual internal audit plan has been prepared, the recorded fraud related to the fraudulent claiming of time by a member of staff and is currently being dealt with by the Police.

### Meetings of the Audit Committee

9.4 As part of the internal controls assurance arrangements it is important that the planned meetings of committee charged with carrying out the duties of an Audit Committee are held and that these meetings are quorate. There have been four 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
11/05/09	Yes	Yes
08/06/09	Cancelled	n/a
20/07/09	Yes	Yes
07/09/09	Yes	Yes

### Data Security

9.5 We understand that there have been no reportable losses of personal data in the period from 1st April 2009.

### B) EXTERNAL MONITORING SPECIFIC TO THE ORGANISATION

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

#### Internal audit findings for first half year

10.1 TIAA has completed four assurance reviews where it was assessed that the control arrangements provide limited or no assurance.

System	Substantial Assurance	Reasonable Assurance	Limited Assurance	No Assurance
Payroll			✓	
IT Security-Network Controls			✓	
Rent Collection			✓	
Service Charges			✓	

10.2 For the areas detailed above, there is currently no further internal audit work planned to be carried out in 2009/10.

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

10.4 Progress against the annual plan for 2009/10 can be seen below:

Audit	Type	Days	Report Issued
Governance-Performance Monitoring	Gov	10	
Payroll	Assr	10	✓
Major Repairs	Assr	15	✓
Management of Voids	Appr	20	
IT Security Network Controls	ICT	10	✓
Risk Management – Integrating Risk	Risk	10	✓
Finance Systems	Assr	10	✓
Budgetary Control	Assr	10	✓
Rent Collection	Assr	15	✓
Works Procurement	Assr	15	
Service Level Agreements	Assr	10	
DLO Service Delivery	Assr	15	
Allocations and Lettings	Comp	10	
IT Application Upgrades	ICT	15	
Gas Safety Checks	Comp	15	
Governance – Conflicts of Interest	Assr	10	
Service Charges	Assr	10	✓
Follow Up	FU	10	
Half Year ICA Report	-	5	✓
Annual Report	-	5	
Annual Plan and Strategy	-	5	
Audit Management	-	15	

#### Follow up on external audit recommendations

10.5 The external auditor did not raise any high priority recommendations in their audit highlights memorandum.

#### Audit Commission National Fraud Initiative

10.6 The Company will be participating in the Audit Commission's National Fraud Initiative and the relevant information was, at the time of the review, being collated.

#### Audit Commission Inspection

10.7 The Company was inspected in the last financial year and has in place an action plan to ensure the agreed recommendations are implemented.

**C) EXTERNAL MONITORING RELATING TO ALMOS**

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

**Regulatory Changes**

11.1 From April 2010, ALMOs will be part of the regulatory process managed by the Tenant Services Authority. The Company is aware of its responsibilities under the new regulatory regime and has been involved in the TSA's National Conversation. The Company monitor both the good practice guides and circulars issued by the TSA in readiness for the change next year.

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Appendix A

**COMPARATOR INFORMATION ON PROGRESS IN MITIGATING EMERGING RISKS**

The operational good practice has been identified at other ALMOs at which we have reviewed these emerging risks during August and September 2009 and therefore must not be considered to be all the operational good practice matters that can be taken to mitigate the probability and/or impact of the risk materialising.

**Emerging risk: Lack of preparedness for changes to the Supporting People funding regime.**

Actions taken by other ALMOs	Action taken by the Company	Operational Effectiveness Matter
Zero-based review carried out of how to deliver the supported housing services, including identification and costing of activities that could be shed at short notice in the event that the funding is not available.	A pro-active review of the cost structure of the current supported housing services, including the identification of the opportunities to reduce operating costs, is currently being carried out in conjunction with Nottingham City Council.	None

**Emerging risk: Failure to address the organisation's liabilities under the SHPS (and other) pension scheme.**

Actions taken by other ALMOs	Action taken by the Company	Operational Effectiveness Matter
Ongoing monitoring of pension scheme deficits and full disclosure in the accounts. New employees offered money purchase scheme or similar. Pension increase from April 2008 included in the budget and financial plan.	The Company has budgeted for an increase in pension contributions for the next 3 years. The Local Government Pension Scheme's next actuarial review will be announced in the next quarter with the changes being built into the business plan as appropriate.	None

**Emerging risk: Failure to prepare for a nil rent increase in 2010.**

Actions taken by other ALMOs	Action taken by the Company	Operational Effectiveness Matter
Identify any recurrent savings or additional income to offset loss of income. Monitor and update Business Plan assumptions as appropriate. Carry out specific sensitivity analyses relating to reduced income.	The Company is prudent in its approach to the delivery of services and is always looking to identify any savings and efficiencies. The last increase was limited by the Government to 3.1% and currently the Company is waiting information from DCLG (due October 2009) and are anticipating a 2-year settlement.	None

**Emerging risk: Failure to prepare for the change in the Housing Revenue Account**

<b>Actions taken by other ALMOs</b>	<b>Action taken by the Company</b>	<b>Operational Effectiveness Matter</b>
Responding to Government consultation document.	The Government issued a consultation document on 21 <sup>st</sup> July 2009 and are expecting responses back by 27 <sup>th</sup> October 2009. The Company is working with Tribal Consulting to provide a response by the due date.  The Company risk map has been updated to reflect this risk.	<i>None</i>