



NOTTINGHAM CITY HOMES

REVIEW OF THE BUDGETARY CONTROL ARRANGEMENTS

Report issued:	October 2009
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Audit Plan:	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

Review of the Budgetary Control Arrangements

- EXECUTIVE SUMMARY -

INTRODUCTION

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

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).

Figure 1 - Evaluation of the Effectiveness of the Internal Controls

Evaluation
Substantial 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	0	1	0

MANAGEMENT RESPONSES

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

RELEASE OF REPORT

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

Date draft report issued:	21 st August 2009
Date management responses recd:	30 th September 2009
Date final report issued:	2 nd October 2009



MANAGEMENT ACTION PLAN
PRIORITY 1, 2 AND 3 RECOMMENDATIONS

Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
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.	A Director had not signed off virement form V37 from 08/09, which was for the movement of £6000 "conference for tenants needs to be managed by Tenant Involvement Team".	Recommendation 1: Virement forms be authorised in line with the Financial Regulations Financial Authorisation Matrix.	3	<i>Authorisation Limits for virements are to be amended as part of the revised Financial Regulations to ensure more practical approvals can be introduced and maintained.</i>	<i>December 2009</i>	<i>Darren Phillips – Head of Finance (Company)</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

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

- DETAILED REPORT -

SCOPE AND LIMITATIONS OF THE REVIEW

6. 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 the financial information included in tenders prepared by the Company.
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 Organisation and an assessment of the combined effectiveness of the controls in mitigating the key probity risks is provided. The assessments 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

9. The management fee paid by Nottingham City Council to Nottingham City Homes for the year 2009/10 is £35,053,570

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>Substantial Assurance</u>

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

- 11.1 The Financial Regulations were last updated in May 2008. The internal audit carried out in August 2008 recommended that the Financial Regulations 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. Additions to the Financial Regulations are currently held in a Register of Standing Orders Updates. These will be considered for inclusion when the Standing Orders are revised in September 2009
- 11.2 Finance training "money matters" has been provided to budget holders and this includes a section on budget management. A memo entitled Budget Setting Process - Guidance for Budget Holders was sent out by the Head of Finance in August 2008 and the Budget Holders Handbook was devised in August 2008 and is available on the Company's intranet site. A "Managing Your Budget" presentation was communicated to budget holders in the summer of 2009.
- 11.3 A budget submission template is sent out to budget holders and completed ones sent to Finance. Designated Finance Officers review these.
- 11.4 The budget for 2009/10 was compared to the previous years budget and projected outturn when it was presented to the Board for approval and was presented to the Performance and Regulatory Committee prior to being approved by the Board.
- 11.5 A report showing the budget and actual expenditure for the full year was presented to the Performance and Regulatory Committee in May 2009. The final accounts were presented to the Board in July 2009.
- 11.6 The approval routes in the One World system ensure that the actual budget holders are the only ones that can authorise expenditure against their budgets.
- 11.7 Reports are produced monthly for budget holders showing actual spend against budgets. The elapsed time between cut-off date for management accounts and their presentation to the budget holders is two weeks. All budget holders have an allocated Finance Officer to oversee and check these figures and have read only access to the nominal ledger. All budgets are closely monitored by the Finance Assistants from period 9 onwards and re-forecasting is carried out or the budget removed if a significant under spend is likely to occur. Any new initiatives requested by budget holders are to be funded from savings made in the original budget.
- 11.8 The management accounts are presented to the Performance and Regulatory Committee quarterly the month following the quarter year-end (i.e. Aug for Q1).
- 11.9 Budget holders have been encouraged to maintain their own local records in order to enable challenge and support to the budget reports produced by the Finance department. Budget holders are required, as detailed in the "Managing Your Budget" training provided, to keep a list of all outstanding commitments and to monitor them in tandem with reviewing monthly budget reports and meetings with Finance Officers.

11.10 All suspense accounts are cleared prior to the budgetary control reports are prepared.

In the event that any adverse variance is identified, the Finance Officer would arrange a meeting with the relevant Director or Assistant Director and challenge the budget holder to ensure the budget is brought back in line or provide appropriate reasons for the variances. This would be reported to the Executive Management Team.

12 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	<u>Substantial Assurance</u>

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

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

13.1 The current year's budget was compared to the previous years budget and projected outturn and was for presented to the Performance and Regulatory Committee in November 2008 in line with the timetable and approved by the Board in March 2009.

13.2 Recruitment costs were not increased by inflation. Nottingham City Council's energy team provided utility cost increase figures. The pay award was assumed at 2.5%.

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.

13.3 Virement for V37, which was for the movement of £6000 "conference for tenants needs to be managed by Tenant Involvement Team" has not been signed off by a Director.

Recommendation 1: Virement forms be authorised in line with the Financial Regulations Financial Authorisation Matrix.

13.4 Only one contract has been awarded since the budget for 2009/10 was agreed that did not relate to Contract Services. This was for void security and the amount included in the budget was in line with the actual contract value.

13.5 The management accounts for Periods 3 and 4 were obtained and reviewed. These contained the original and latest budget figures to date; the actual spend to date and variances, the full year budget and forecast outturn and variances. All significant variances were supported by a narrative and any relevant risks.

13.6 A reconciliation is completed weekly by the Finance Officer - Asset Management between the information held in the maintenance system to the finance system. At the time of the audit review this had been completed up to week ending 2nd August.

13.7 Access rights to the One World system are requested by the Finance Manager or Finance Officers and set up by the One World Team at Nottingham City Council.
