

NOTTINGHAM CITY HOMES

**REPORT OF DIRECTOR OF FINANCE,
ICT AND GOVERNANCE**

**FINANCE & AUDIT COMMITTEE
9 NOVEMBER 2009**

FINAL INTERNAL AUDIT REPORTS

1 SUMMARY

1.1 Attached to this report are the following 5 internal audit reports submitted by TIAA Ltd:

- Risk Management Review of the Integration Arrangements;
- Review of the Major Repairs Arrangements;
- Review of the Budgetary Control Arrangements;
- Review of the Contract Services Payroll Arrangements; and
- Half-year Internal Controls Assurance Update Report.

1.2 TIAA give an evaluation of the effectiveness of the risk mitigation arrangements for each audit completed. There are four possible evaluations used in their audit reports, which are defined as follows:

- Substantial Assurance;
- Reasonable Assurance;
- Limited Assurance; and
- No Assurance.

The full definitions of each of the four evaluations are contained within each of the audit reports.

1.3 The table below shows the evaluation made by TIAA in respect of each of the latest internal audit reports:

Report	Evaluation
Risk Management	Reasonable Assurance
Major Repairs Arrangements	Reasonable Assurance
Budgetary Control	Substantial Assurance
Contract Services Payroll	Limited Assurance
Half-year ICA Update	N/A

1.4 Some audit reports include recommendations classified as 'operational effectiveness matters' which TIAA state should be considered as part of the management review of procedures rather than on a one by one basis. These recommendations are not rated or given a priority by TIAA and NCH is not required to agree a responsible officer or set a timescale for implementation. Therefore these recommendations are not included on the Company's Audit Register.

2 RECOMMENDATIONS

It is recommended that the Finance & Audit Committee:-

- 2.1 Note the content of the reports; and
- 2.2 Agree the adequacy and appropriateness of the management comments and actions agreed by responsible officers in response to the audit recommendations.

3 REPORT

- 3.1 The Company has a duty to uphold principles of good Governance which, as per the Company's Standing Orders, includes ensuring that effective systems of delegation, audit and control are maintained. The Board also has a statutory responsibility for ensuring adequacy systems of internal control are in place and operating effectively within the Company.
- 3.2 To enable the Board to achieve its statutory obligations in relation to overseeing internal control, the Company appoints internal auditors to provide a rolling programme of audit reviews to assess its key financial and non-financial systems and related procedures as part of an Internal Audit Strategic Plan. The work of internal audit and the reports produced in relation to each audit review are a key part of the Company's framework for monitoring its overall system of internal control.
- 3.3 Historically all internal audit reports have been monitored by the Company's Audit Committee. Following Governance reorganisation it has been agreed that the new Housing Management and Property Services Committees shall now be responsible for reviewing and monitoring all audit reports in relation to their respective Directorates.
- 3.4 The Finance and Audit Committee will continue to receive all audit reports in order to:
 - Monitor progress with the annual Internal Audit Plan and Audit Strategy; and
 - Fulfil its responsibility to advise the Board on the effectiveness and adequacy of the Company's internal control arrangements.
- 3.5 Members should primarily focus their attention on discussing Support Services audit reports in detail at Committee meetings and it is expected that Housing and Property Services audit reports will only be a focus of discussion where there are fundamental or material breakdowns in internal control i.e. 'no assurance' evaluation. The significant matters arising from each of the latest TIAA audits (see paragraph 1.1) are highlighted at the beginning of each audit report, as summarised below:
- 3.6 Risk Management – TIAA have reviewed the adequacy of the Company's integration arrangements and the following important matter was identified which needs to be addressed by management in order to further strengthen the control environment:

- The Risk Management Panel do not receive information on the completion of quarterly reviews of service area risk registers, as required by the Risk Management Framework, by Company Managers.

Of the 5 recommendations raised by TIAA in their audit report 1 is rated as an 'Important' priority and the remaining 4 recommendations are rated as 'Routine'.

- 3.7 Major Repairs Arrangements – TIAA have reviewed the Company's controls and identified no recommendations or actions which they deem are required of management in order to significantly strengthen the respective control environment. Of the 2 recommendations raised by TIAA in their audit report, both are rated as 'Routine' priorities.
- 3.8 Budgetary Control – TIAA have reviewed the Company's controls and identified no recommendations or actions which they deem are required of management in order to significantly strengthen the respective control environment. The sole recommendation raised by TIAA in their audit report is rated as a 'Routine' priority.
- 3.9 Contract Services Payroll – TIAA have reviewed the adequacy of the Company's control arrangements and the following significant matters were identified which need to be addressed by management in order to further strengthen the control environment:
- No documented authority could be found for the severance packages awarded to contract services staff in the previous 12 months;
 - There are no documented procedures in place for the input, checking and processing of the weekly timesheets; and
 - No confirmation is obtained of the continuing entitlement to ongoing allowances by the operatives.

Of the 5 recommendations raised by TIAA in their audit report 1 has been rated as an 'Urgent' priority and the remaining 4 recommendations are rated as 'Important'.

- 3.10 Half-year ICA Update Review – The review took into consideration whether NCH could demonstrate that action has, or will be taken in a timely manner, to address changes which may have an impact on the Company internal control assurance. There were no key control or operational practice findings identified during the review which NCH needs to address in order to strengthen the control environment.
- 3.11 Management responses designed to adequately address weaknesses in the related control environments, together with responsible officers and timescales for implementation, have been agreed with internal audit for all the recommendations raised in the aforementioned reports.

4 OTHER OPTIONS

4.1 Not applicable.

5 IMPLICATIONS FOR NOTTINGHAM CITY HOMES OBJECTIVES

5.1 The consistent application of recognised control procedures will address a number of issues raised by the Audit Commission.

6 VALUE FOR MONEY & EFFICIENCY ISSUES

6.1 Compliance with key controls and procedures is an essential part of delivering efficiency and cost effectiveness.

7 EQUALITY & DIVERSITY IMPLICATIONS

7.1 None.

8 BACKGROUND MATERIAL AND PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

8.1 TIAA Ltd audit reports attached (see paragraph 1.1).

8.2 Internal Audit Annual Plan and Audit Strategy.

8.3 Company Standing Orders.

CONTACT OFFICERS: Julie Crook,
Director of Finance, ICT and Governance
14 Hounds Gate,
Nottingham,
NG1 7BA
Tel: 0115 915 7378
E-mail: julie.crook@nottinghamcityhomes.org.uk

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