ITEM: 7

NOTTINGHAM CITY HOMES

REPORT OF DIRECTOR OF FINANCE, ICT AND GOVERNANCE

FINANCE & AUDIT COMMITTEE 8 FEBRUARY 2010

INTERNAL CONTROL ISSUES AUDIT REGISTER OF OUTSTANDING ACTIONS

1 SUMMARY

1.1 To ensure that management actions agreed within final audit reports are implemented within agreed timescales progress updates are obtained from responsible officers on a quarterly basis and documented, alongside the related recommendations, on the Company's Internal Control Issues Audit Register.

1.2 The Finance and Audit Committee is required to oversee the timely implementation of all agreed management actions as included in the Company wide Audit Register in order to fulfil its responsibility to advise the Board on the effectiveness and adequacy of the Company's internal control arrangements.

1.3 Members should primarily focus their attention on monitoring and challenging the progress made by Support Service responsible officers in implementing their agreed actions as the new Housing Management and Property Services Committees now assume responsibility for monitoring the timely implementation of actions agreed, within reports, following audit reviews in their respective Directorates.

1.4 To facilitate Members review of the Audit Register, the following colour coding has been used to differentiate between reports, and recommendations, relating to the following areas of the business:

SUPPORT SERVICE
HOUSING MANAGEMENT
PROPERTY SERVICES
ALL – COMPLETED RECOMMENDATIONS

1.5 The current audit register includes 64 recommendations of which 49 are still outstanding. The audit register is attached to this report (see Appendix 2) along with a headline summary of the status of all audit report recommendations (see Appendix 1).

2 RECOMMENDATIONS

2.1 It is recommended that Members review the report and provide comment and feedback on the current status of items on the Internal Control Issues Audit Register (see Appendices 1 & 2) and confirm they are satisfied with the progress made by management in implementing agreed actions.

3 REPORT

3.1 The Audit Register was provided to members on 9th November and included a total of 68 recommendations. Of these recommendations 17 actions were logged as complete leaving 51 outstanding.

3.2 The latest version of the Internal Control Issues Audit Register includes an additional 13 recommendations made in the following Internal Audit and External Audit reports which were received by the Audit Committee in July:

- Risk Management Review of the Integration Arrangements (5);
- Review of the Major Repairs Arrangements (2);
- Review of the Budgetary Control Arrangements (1);
- Review of the Contract Services Payroll Arrangements (5); and
- Half-year Internal Controls Assurance Update Report (0).

3.3 Progress in implementing newly raised audit recommendations has been good with 8 of the 13 recommendations raised in the 5 internal audit reports presented at the November Audit Committee, now fully implemented.

3.4 Overall however, progress made by responsible officers has been poor and, at the time of drafting this report, out of the total of 64 recommendations included in the Audit Register only 15 had been fully implemented. Of the 49 recommendations still outstanding 44 have gone beyond their original target dates with 18 having exceeded that date by more than 1 year.

3.5 It is vital that the responsible officers take ownership of the actions required to ensure these audit recommendations are fully implemented at the earliest opportunity and hence removed from the Audit Register. Doing so is should be a key performance target for responsible officers going forward to ensure that significant improvements are made in advance of the next Finance and Audit Committee (May 2010).

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 RISK ASSESSMENT

6.1 The Internal Control issues identified by NCH's auditors, which lead to the respective recommendations monitored in the Audit Register, are assigned an order of priority dependent on the risk they pose to NCH's Internal Control Systems and the achievement of its objectives. The priorities assigned by our previous Internal Auditors (up to 31 March 2008) are as follows;

<u>City Audit Services – Previous Internal Auditors</u>

- High – A fundamental weakness which presents material risk to the audited body and requires urgent attention by management.
- Medium – A significant weakness whose impact or frequency presents an unacceptable risk to the audited body that should be addressed by management.
- Low – The audited body is not exposed to any significant risk, but the recommendation merits attention.

6.2 The priorities assigned to the recommendations raised by our new auditors are now defined as;

TIAA Ltd – Internal Audit

- Urgent – A fundamental control issue on which action should be taken immediately.
- Important – A control issue on which action should be taken at the earliest opportunity.
- Routine – A control issue on which action should be taken.

Grant Thornton UK LLP – External Audit

Not Applicable - Grant Thornton have not assigned an order of priority to the recommendations made in response to the key matters arising from their audit of the Company's financial statements

6.3 The 45 outstanding internal audit recommendations included on the Audit Register are split into the following priorities, having been assigned by TIAA Ltd:

Priority Assigned by Internal Audit	Number of Recommendations
Urgent Priority	9
Important Priority	15
Routine Priority	21
Total	**45**

6.4 It is important when agreeing Internal Audit recommendations that the nominated Principal Auditee and/or Responsible Officers ensure that the priority levels associated with each recommendation, and included in the final report, accurately reflect the true risk to NCH's system of internal control and the achievement of its business objectives.

7 VALUE FOR MONEY & EFFICIENCY ISSUES

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

8 EQUALITY & DIVERSITY IMPLICATIONS

8.1 None.

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

9.1 TIAA Ltd Internal Audit reports (see paragraph 3.2).

9.2 Internal Control Issues Audit Register Summary February 2010 – Appendices 1.

9.3 Internal Control Issues Audit Register February 2010 – Appendices 2.

9.4 Audit Register Report November 2009.

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